S. HRG. 101-52

NOMINATION OF CARLA ANDERSON HILLS

HEARING

BEFORE THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

ON THE

NOMINATION OF

CARLA ANDERSON HILLS, TO BE U.S. TRADE REPRESENTATIVE

JANUARY 27, 1989

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NOMINATION OF CARLA ANDERSON HILLS

FRIDAY, JANUARY 27, 1989

U.S. SENATE,
COMMITTEE ON FINANCE,
Washington, DC.

The hearing was convened, pursuant to notice, at 10:00 a.m. in room SD-215, Dirksen Senate Office Building, Hon. Lloyd Bentsen (chairman) presiding.

Present: Senators Bentsen, Moynihan, Baucus, Bradley, Pryor, Riegle, Rockefeller, Daschle, Packwood, Dole, Danforth, Heinz, and Symms.

[The prepared questions to the nominee appear in the appendix.]

[The press release announcing the hearing follows:]

[Press Release No. H-2, January 11, 1989]

SENATOR BENTSEN ANNOUNCES HEARING TO REVIEW NOMINATION OF HILLS TO BE U.S. TRADE REPRESENTATIVE

WASHINGTON, DC—Senator Lloyd Bentsen (D., Texas), Chairman, announced Wednesday that the Finance Committee will hold a hearing to review the nomination of Carla Hills to be U.S. Trade Representative.

The hearing will be held on *Friday, January 27, 1989 at 10 a.m.* in Room SD-215 of the Dirksen Senate Office Building.

Ms. Hills is currently a partner in the New York law firm of Weil, Gotshal & Menges. Previously, she served as Secretary of Housing and Urban Development under President Ford, and as Assistant Attorney General in the Civil Division of the Justice Department for President Nixon.

OPENING STATEMENT OF HON. LLOYD BENTSEN, A U.S. SENATOR FROM TEXAS, CHAIRMAN, SENATE FINANCE COMMITTEE

The CHAIRMAN. This hearing will come to order.

Mrs. Hills, over the years this committee has had the privilege of working closely with a group of distinguished Trade Representatives and we look forward to working with you as well. This committee has had a very close relationship with the U.S. Trade Representative, both by law and by tradition, and I am going to work hard to preserve and protect that relationship.

In that regard, I suggested this hearing be held back on January 4 so that you would have ample time to get started on your job, but the paperwork was not done on the administration's side at that point and we had to defer the hearing until this time.

Under our Constitution, the responsibility for creating and implementing trade policy is shared by the executive branch and the Congress. Congress has the broad power to impose tariffs and to regulate trade with foreign countries, but we cannot negotiate for our country. The President may negotiate trade agreements, but

then he has to rely on the Congress for the implementation of those agreements into domestic law.

For the last 55 years, this constitutional paradox has been resolved by cooperation between the executive branch and the Congress. And over most of the last 55 years, ever since the era of Cordell Hull and the 1934 Reciprocal Trade Agreements Act, a spirit of close cooperation has prevailed in relations between the Finance Committee and the executive branch.

Unfortunately, in my opinion, there were problems over the last 8 years. The last administration chose to go its own way most of the time. If we were consulted, often it was after the fact. I believe that situation is behind us now with a new administration and a new nominee to be the U.S. Trade Representative. President Bush has already gone a long way toward establishing a new relationship with the Congress through his recent overtures.

We also have a new blueprint for cooperation on trade policy because of the Omnibus Trade Act of 1988. That law expands the tools the administration can bring to bear on trade problems and on the new round of GATT negotiations. It strengthens the hands of the Trade Representative as the administration's chief spokesman on trade. And we did that with intent. We want that Trade Representative—in this case, you—to play a leading role on trade.

At the same time the 1988 act places the requirement of consultation with the Congress on a new and stronger footing.

For example, I think we simply got stiffed by the last administration when it came to trade negotiations. The failure to consult almost killed the United States-Canada Free Trade Agreement.

The new Trade Act, while extending fast-track congressional procedures for bills to implement trade agreements, for the first time ties the continuance of the fast-track to continuing consultation between the executive branch and the Congress on negotiations and other trade matters. And under the so-called "reverse fast-track" that we put into that legislation, we can revoke the fast-track if the administration fails to listen to our concerns or to consult with us. What we mean by that is we do not want any surprises. And believe me, I will not hesitate to introduce a resolution to remove the fast-track if the cooperation is not there. But I do not expect I will have to do that and hope I won't.

I anticipate we will be meeting with you many times to discuss the trade issues. The new act sets up a series of checkpoints on trade, as important reports and determinations required by the act are issued by the administration. We have scheduled oversight hearings on March 1 and April 19 in order to exchange views on those issues as they come up. We scheduled those hearings earlier than normal because we want to give you and your staff enough lead time to prepare for them. And we wanted the rest of the administration to understand that we did not want trade matters swept under the rug. And I expect that we will schedule some informal meetings with you as well. You have got a tough job ahead of you. There are a lot of hard decisions to be made in the coming months, and the Uruguay Round negotiations are at a crucial stage.

But I think you will find that if you're ready to work with the committee, we are ready to work with you, and you can hardly find a better ally.

Now, I would like to defer to my friend, Senator Packwood.

OPENING STATEMENT OF HON. BOB PACKWOOD, A U.S. SENATOR FROM OREGON

Senator PACKWOOD. Carla, there are two positions I think in this Government that outweigh all the others. Yours is one, other than the President, obviously, and the other is the Budget Director. Those two are going to have more to do with the course of this country than I think the rest of the Cabinet put together. One, facing our national deficit; the other, our trade deficit and our trading relationships with our partners.

You and I have talked. You know where I come from. I am willing to complete toe-to-toe with those countries that want to fairly do it with us. I do not come down on the side of protection, and think to the extent other countries do not, we ought to say. Okay we will see if we can beat you in your market. You can try to beat us in ours and we will both try to beat you in Brazil.

But that is not a view shared by everybody. And that is a problem you are going to have to try not only to resolve, but, in addition to lead, because the direction this country ought to take is toward more and more trade and more and more open borders. We have partially done it with Canada. Not totally. There are things like subsidies we just did not negotiate. We wanted to; they did not. We put it aside and said it is the first item to negotiate under the Trade Agreement. We will see what we can do.

But for better I hope. If you are unsuccessful—if we do not succeed in permanently dampening the protectionist sentiment that exists in this country—and I mean it is genuine; the people will say I don't care what the trade rules are. Put up the barriers. Don't buy any Toyotas and don't sell any computers. Just have a big U.S. market. We are nice people and we can take care of ourselves. But, that attitude would not serve us well or the world well. And more than any other person, it is going to be your job to teach this country, not just to help us but to teach this country to avoid those attitudes. I wish you good luck. It is a critical position.

The CHAIRMAN. We will follow the order of arrival of the Senators, and it is Senators Packwood, Danforth, Heinz, Baucus, Bradley. Senator Danforth, do you have any comments?

Senator DANFORTH. I have no opening statement, Mr. Chairman.

The CHAIRMAN. All right,

Senator Heinz?

Senator HEINZ. Mr. Chairman, I will hold my opening statement.

The CHAIRMAN. All right.

Senator Baucus?

OPENING STATEMENT OF HON. MAX BAUCUS, A U.S. SENATOR FROM MONTANA

Senator BAUCUS. Thank you, Mr. Chairman.

Mrs. Hills, I think Senator Packwood and the chairman are very accurate in pointing out the importance of trade and how much

trade has risen in importance over the years. I am struck with the attendance at today's hearing for the U.S.T.R. confirmation hearing. A lot has happened, and a lot has changed in the last 5, 10, 15, 20 years. Trade is now so much more important than it was in the past. And I think that Senator Packwood is correct when he suggest that perhaps your position and that of the Budget Director, as a practical matter, are probably two of the most important in the Government today.

You have the obligation and also the opportunity to develop the first comprehensive trade strategy for the United States, one that is necessary and one that is effective. You know all the components of it. You have been told about them. You know about a lot of them already. Certainly they include developing a negotiating strategy for the United States such as; what we do with Europe in 1992; Japan; whether we develop bilaterals with various countries; semiconductor agreements; super computer agreements; telecommunications. There is a whole long list. And we have to decide what our priorities are and what our strategy is in dealing with all of the various agreements and potential problems that are on the horizon.

We have not really had that kind of strategy before and you have the opportunity to develop one.

In addition to that, I strongly encourage you to try to boost up the resources of your staff. I think the U.S.T.R. is going to be spread a bit thin with all the additional pressures and responsibilities placed on the U.S.T.R.

I understand, for example, there is only one person in the U.S.T.R.'s office devoted to Japan. I think Japan deserves more than one person, frankly, particularly because our trade deficit with Japan is so large and continues to be so large and is not going away.

Later on in this hearing we will have a lot of questions, a lot of points we want to make, but I want to impress upon you the need to be very firm. I think the President was correct in his inaugural address in referring to the need for a kinder or gentler nation, but I also think there is a touch of naivete in that statement, because the world is not necessarily kinder or more gentle when it comes to international trade.

There is near economic war. Countries and companies are competing very, very aggressively. I don't think they will be very kind. I don't think they will be very gentle. So we have to deal with that in a statesman-like way, in a way that makes America proud, that is, knock down trade barriers, but not to erect barriers. Do not be protectionist, but just be very fair and be very firm.

Thank you very much. I look forward to your tenure as the U.S.T.R. It is going to be a very exciting one and I think you will do a very good job. Thank you.

The CHAIRMAN. Senator Bradley.

Senator BRADLEY. Mr. Chairman, I have no opening statement, I have had a long discussion with Mrs. Hills, and I think she knows what I have emphasized and I won't do it again publicly.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Mr. Chairman, I have no statement.

The CHAIRMAN. We have two of our distinguished colleagues here this morning to introduce Mrs. Hills. Senator Cranston, would you proceed?

STATEMENT OF HON. ALAN CRANSTON, A U.S. SENATOR FROM CALIFORNIA

Senator CRANSTON. Thank you very much, Mr. Chairman.

Some 14 or 15 years ago it was my pleasure to introduce Carla when she was nominated by Senator Ford to be Secretary of HUD, and I am delighted to be once again with her and with my colleague, Pete Wilson, to speak briefly of her talents to this committee as she comes before you for consideration for the nomination to, as several of you have indicated, one of the most important roles in our Government under the present circumstances.

I have known Carla for many, many years, and have profound respect for her. Just to capsule her biography, she was born in Los Angeles, received a bachelors degree from Stanford University, a law degree from Yale, served in President Ford's Cabinet as the third woman in American history to be a Cabinet officer. She was Assistant Attorney General before that in the Civil Division from 1974 to 1975, and assistant U.S. attorney in Los Angeles for 3 years, and adjutant professor at UCLA Law School.

In 1976, Carla was named one of the 10 women of the year by Time Magazine. For more than a decade she has been one of America's outstanding women leaders. She is a co-managing partner of the law firm of Weill, Gotshal & Manages. She has been chairman of the Urban Institute since 1983. She is a member of the executive committee of the American Agenda, co-chaired by Presidents Ford and Carter. She was the Vice Chair of President Reagan's Commission on Housing and served on the Commission on defense management.

We all know that the trade deficit is one of the major economic problems confronting our country and our people. Carla, I am convinced, has the experience and the wisdom and also the toughness to deal effectively as our leader in seeking to overcome those problems. I am delighted she will have that responsibility.

Carla, thank you very much. And member of the committee, thank you.

Mrs. HILLS. Thank you very much, Senator Cranston.

The CHAIRMAN. Thank you.

Senator Wilson?

STATEMENT OF HON. PETE WILSON, A U.S. SENATOR FROM CALIFORNIA

Senator WILSON. Thank you very much, Mr. Chairman. I am glad that it fell to my friend and colleague, Alan Cranston, to perform the exhausting task of trying to summarize Mrs. Hills' resume. It is a resume of a truly remarkable human being. In a city where resumes are commonplace and are commonly inflated, I suspect this one greatly understates the amount of energy and contribution, both in terms of her public and private sector leadership. But since he has done that, and done that very effectively, I don't think that you need any further emphasis on the fact that she is a distin-

guished lawyer; that she has been both a teacher and a practitioner; that she has performed in both the public and the private sector; that her experience includes 15 years ago the experience of being Secretary of Housing and Urban Development in the Ford administration.

It was then that we first had extensive dealings. She was relatively new to that post. I was still relatively new to the post as being mayor of San Diego. And when we met, as we did often, I could not help but to be struck, first, by her grasp of the problems facing America in terms of housing and the concerns that were hers as Secretary of HUD; second, by the tremendous energy with which she attacked them, and by the candor, as well as the intellectual capacity.

I was to have the occasion in many subsequent fora to see those same qualities demonstrated time and time again.

She has served on so many boards—judicial, administrative entities, so many think tanks and Presidential Commissions—that it is purely mind boggling. But I think that to get the full flavor of this woman you have to actually have participated with her in some kind of negotiation. You have to have seen her at work, whether it was on the Packard Commission, or, as I did those years ago in city hall in San Diego, dealing with the problems of a large and growing city.

I think that if you have had that experience you come to know that this is a woman who is possessed really of a judicial temperament, though I have seen her most often in the capacity of an advocate. And that, of course, will be the role that she plays for the United States as the U.S. Trade Representative.

She has the capacity to weigh and to balance arguments, to sift the wheat from the chaff, but she is a forceful advocate.

As you will see from her own statement, the concerns which have been articulated from the rostrum this morning, the concerns expressed with such customary eloquence by our colleague, Senator Packwood, are shared by Mrs. Hills, and she makes that clear in her statement. And I will leave it to her to say it better, but she has expressed the view that a credible threat of retaliation is necessary for America to open markets, to end unfair trading practices, and to avoid that threat of protectionism against which Senator Packwood has warned us.

Let me just say that this is a job that calls for the skills of a virtuous negotiator. It calls for great firmness, great toughness of mind, and the ability to be very tough at the bargaining table.

This is a gentle woman, but don't be deceived. This lady has the guts of a lion. You will never hear her raise her voice. She doesn't need to. She is quite credible in terms of her firmness, in terms of her ability to articulate a position for those whom she is representing. And in this instance it will be the United States. But she is fully capable of outlasting opponents.

She has large shoes to fill. I think Ambassador Yeutter has done yeoman service. I think she will not only fill those shoes. I think that he will be very proud that he was succeeded by her. And there will be no doubt I think in the mind of anyone who observes from either side of the table that this is a very skilled and very tough negotiator, someone who is equipped by intellect and by character

to be as good a U.S. Trade Representative, or better, than we have had in our history.

She comes to the job at a time, as has been stated here, when the importance of this role is difficult to overemphasize. So I will take no more time of this committee. I am proud and privileged to have the responsibility, which I share with my colleague from California, of introducing Mrs. Hills. She is a friend. But if were that not the case, an objective examination and the experience that I have had observing her over the years would make it impossible for me to say anything other than I have this morning.

I think that she will be a truly distinguished U.S. Trade Representative. And I thank the committee for the opportunity to appear this morning, having worked with so many of you on a trade agenda that is perhaps of greater importance to my State than any other. And because of your understanding of my interest, I think you will see that it has been a particular pleasure for me to have the responsibility to co-introduce her this morning.

The CHAIRMAN. Thank you, Senator Wilson.

Mrs. Hills, you obviously have some very strong proponents, some strong bipartisan support. I am pleased to have you.

Senator WILSON. I say that, Mr. Chairman, not only do Senator Cranston and I represent both sides of the aisle, but as a Stanford man, I thought he exhibited admirable restraint in not lording it over me as someone from Berkeley, that that little rivalry probably doesn't mean much outside the Bay area, but it is of importance in a parochial way.

The CHAIRMAN. Oh, I have a son who went to Stanford, but he has pretty well overcome it. [Laughter.]

Mrs. Hills, we are delighted to have you.

STATEMENT OF MRS. CARLA ANDERSON HILLS, U.S. TRADE REPRESENTATIVE-DESIGNATE

Mrs. HILLS. Thank you very much, Mr. Chairman. And I thank so much, Senator Wilson; your words were overly generous. And I am very appreciative of your time.

The CHAIRMAN. Would you proceed, please?

Mrs. HILLS. Mr. Chairman, and members of the committee, I am honored to appear before you today as the nominee for U.S. Trade Representative. If confirmed, I will succeed Clayton Yeutter, a truly wonderful person who has done, in my view, an excellent job. And it would be a great pleasure for me to have the opportunity to serve as a Cabinet colleague of his.

Mr. Chairman, you have, and the members of the committee have, my written statement for the record. I would like to touch on just a few points.

Although I have known most of you for a number of years, you probably are not very familiar with what I have been doing professionally since I left Government in 1977, and that is largely because I have rarely sought a meeting with you. I am not primarily a lobbyist. I am a lawyer.

Comments by one group quoted in the press may have raised questions in your mind regarding real or apparent conflicts of in-

terest that either my or my husband's law practice or business activities could create with the office of U.S. Trade Representative.

The Senate has not had extensive experience with Cabinet nominees who have a spouse working in the commercial sector. Overtime, it will have. So let me address allegations of potential conflict straightaway. There are none. I have terminated all business and professional affiliations and have committed to sell investments that could conceivably present any conflict with the responsibilities of the U.S. Trade Representative. I have also constructed a procedure, working with the White House counsel, the general counsel of the U.S. Trade Representative, and the Office of Government Ethics, under which I will recuse myself from any matter where my participation could conceivably even raise a possibility of an appearance of a conflict.

Similarly, my husband has committed to terminate all of his business relationships in investment that could present a conflict with the Office of U.S.T.R. In addition, he has taken the unusual step of pledging that he will keep the general counsel of the U.S.T.R. informed of his existing and planned business activities, and, further, that he will not undertake any activity that is thought by the general counsel, in consultation with the Office of Government Ethics, to be in conflict with the responsibilities of the U.S.T.R. And all of these procedures have been analyzed and approved by the White House counsel, by the office of Government Ethics, and by the U.S. Trade Representative's General Counsel.

Applying these procedures to my circumstance will not restrict in any material way me from carrying out the responsibilities of the U.S.T.R. Why? Because there are no conflicts of interest, real or apparent.

Now, Mr. Chairman, I would like to turn to a couple of matters that the U.S.T.R. must address early on. More particularly, as you mentioned, the relationship between the U.S.T.R. and the Congress, and our very challenging trade agenda.

First, Congress, To develop and implement an effective trade policy, the President and Congress must be partners. If confirmed as U.S. Trade Representative, I will do everything that I can to sustain and enhance that partnership. I do understand, and I do appreciate the special relationship between the U.S.T.R. and this committee, as well as the Ways and Means Committee of the House of Representatives.

I will, of course, be making many appearances at hearings held by both committees. But in addition, I would like, with your concurrence, to meet regularly on an informal basis. The agenda would be straightforward to inform and to be informed. I would welcome your support when I earn it, and respond promptly to your criticism, even if I believe that I have not earned it.

We will not always agree. I have in my meetings with the members of this committee found that the members of this committee do not always agree. However, if you believe that such meetings can be constructive, they will ensure that we could share meaningfully in developing a splendid trade policy.

Mr. Chairman, and members of the committee, you may well complain in the future that we are taking too much of your time,

but you will not have cause to complain that we gave you too little of our time.

We will also work very closely with the private sector. The Office of U.S.T.R. has an extensive system of private sector advisory committees. I intend to rely on these committees as we pursue U.S.T.R.'s mission.

Our strategic goal is to open markets, not to close them; to create an ever expanding multilateral trading system based upon equitable and enforceable rules. As a global leader, we must prefer to use multilateral negotiations to achieve this end, but we will engage in bilateral and pluralateral efforts and take selective unilateral action where such can be effective in opening foreign markets and establishing equitable and enforceable rules.

Quite candidly, Mr. Chairman, our trade agenda is difficult. We must successfully conclude the Uruguay Round, protect U.S. interests as Europe moves into 1992; effectively implement our free trade agreements with Canada and Israel; and substantially increase our access to the Japanese and other markets.

In the 1988 Trade Act, as you mentioned, you recognized these very tough challenges and gave us new tools to meet them. Let me say just a word about these challenges.

In April on the multilateral front, we face continuation of the midterm review in the Uruguay Round, which we must conclude by 1990. We aim to expand the frontiers of the GATT to include trade and services, effective protection of intellectual property rights, and trade-related investment measures. We also intend to establish a satisfactory discipline in agricultural trade encompassing the difficult issue of subsidies, and to ensure the effective and timely resolution of disputes.

You have been the President's partners in this major multilateral effort. With your continued help we will use these negotiations to strengthen the international trading system which will be an immense advantage to the United States and to tall trading partners.

On the bilateral front, we must vigorously implement our free trade agreements with Canada and with Israel. It will be U.S.T.R.'s responsibility to resolve disputes that have arisen and may arise and to seek appropriate expansions.

We need to monitor other nations' undertakings, such as the European Community's 1992 internal integration project. The creation of a single market of 320 million people can present a substantial opportunity for U.S. exporters and investors. We must be vigilant, however, to ensure that the process of lowering barriers within Europe does not lead to the erection of new barriers to those outside of Europe.

We also must continue to work bilaterally with a variety of countries to open markets to U.S. exports and to enhance the protection of intellectual property rights. And as important as it is to reach agreements with our trading partners, it is equally important to enforce those agreements. And that I will do vigorously.

Let me assure you I will not hesitate to act on the unilateral front when necessary and appropriate to fight breaches of agreements or unfair trade practices. Retaliation cannot be the goal of our policy, but the credible threat of retaliation provides essential

leverage in our market opening efforts. Thus, actual retaliation will be used, albeit reluctantly, to preserve the credibility of the threat.

In all these endeavors, we will, of course, faithfully implement the laws of the United States, including the Omnibus Trade Act of 1988. The act provides negotiating authority for multilateral trade agreements, the settlement by agreement of bilateral trade disputes, and for self-initiated unilateral action regarding special sectors and Super 301 priorities. If confirmed, I will welcome your oversight and your contribution to all of our activities. And I am pleased to take your questions.

[The prepared statement of Mrs. Hills appears in the appendix.]

The CHAIRMAN. Thank you, Mrs. Hills.

We will follow the order of arrival for the questioning and we will limit the questions to not to exceed 5 minutes.

Mrs. Hills, I was very pleased to hear your comments concerning the ethics questions. Do you think the problem of having to recuse yourself from a number of issues, will that hamper what has to be done by the Office of the U.S.T.R.?

Mrs. HILLS. Absolutely, not, Mr. Chairman.

The CHAIRMAN. Why not?

Mrs. HILLS. Because there are virtually no conflicts. As I have presented in my written material to you, there is a procedure to provide comfort. But the background from whence I come raises virtually no conflicts. I have served on a number of boards of directors, and for the appearance sake I will recuse myself for a period of 2 years when they have a particular matter that involves them, but not when they are a member of an industry group. And I will follow the same rule with respect to the boards on which my husband has sat and is sitting.

With respect to my clients, there have been none that I have represented before the U.S.T.R. And unless I have obtained confidential information in the course of my representation, there is no conflict of interest.

For appearance sake, for a period of 1 year I will recuse myself in the event that Weil, Gotshal and Manges, my former law firm, is representing a client before the U.S.T.R. But I must tell you, Mr. Chairman, that has not been frequent in the past, and I do not anticipate that in the year ahead, it will occur frequently.

The CHAIRMAN. Thank you.

As I understand it, you have submitted to the committee the required responses to its questionnaire on background information and potential conflicts of interest. Isn't that correct?

Mrs. HILLS. I have done so.

The CHAIRMAN. All right.

I am concerned about the fact that we are seeing quite an early visit to the new administration on the part of Mr. Takeshita, the Prime Minister who I had the pleasure of meeting with in January of last year. He is a very able parliamentarian and politician.

I would hope that we would not get too early a decision by the President or by you on some very basic and important issues facing us with the Japanese. On the question of semiconductors, I would hope that the President has not yet reached a decision on designation of countries under the Super 301 provision. And I have no

reason to believe that he has. But I would hope that those decisions would be withheld until you have an opportunity to settle into your new responsibility and add the staff people that you have to have to do the proper research and study.

One of my concerns is that in our country we have a tendency to lose institutional memory because of so many of our people staying a relatively short period of time in responsible positions. And the Office of U.S.T.R. is an example where there has been a loss of some able staff people.

It would be my hope that you would put emphasis on hiring people with some real experience, so that when they get into the negotiations that they will know where the bodies are buried, they will know what the decisions were that were made previously, they will have that kind of background information. Would you comment on that?

Mrs. HILLS. Your first comment with respect to the semiconductor dispute with the Japanese, I tend to agree with you, Mr. Chairman. We are very disappointed with how the Japanese have carried out their agreement in that area. It is difficult to believe that they could get to the 20-percent level that they promised by 1991 at their current rate. So we are very concerned about that.

With respect to the priority countries, I agree with you again. These negotiations are ongoing, and we need the full amount of time available to conduct those negotiations with the hope that the practices that cause so much trouble can be remedied.

The CHAIRMAN. All right.

Let me comment since my time is running out here.

Mrs. HILLS. Yes.

The CHAIRMAN. You talked about EC 1992. I think that presents great opportunities to increase trade with Europe. The hope is that by increasing the size of their market, enjoying some of the benefits we enjoy in this country with such a huge domestic market, that they will develop more confidence in themselves and not be as protectionist as they have been in the past in such sectors as steam turbines, telecommunications, and automobiles. In this country, 30 percent of our market approximately is held by foreign producers. In Europe, it is less than 10 percent. I think it is important that we monitor what they are doing.

When we had the Trade bill before us, I had European ambassadors in my office constantly, and the Japanese Ambassador as well. I saw what was spent in lobbying against the Trade Bill by the Japanese. We are talking of a hundred million dollars. I know that the Japanese Government urged the administration to veto that bill.

So I understand that kind of influence and that kind of monitoring, but I think we ought to be doing the same thing, expressing our concern to the Europeans that we see trade expand, and that we all benefit by EC 1992. The Europeans should provide their consumers products at lower cost, but, in turn, they should open up their borders more to foreign trade. And I would urge that you monitor the movement toward EC 1992, not in any adversarial role but to encourage an increase of trade around the world, because it has not expanded to the extent that it should. Trade has gone into

a lull, so to speak, and we have seen more protectionism springing up around the world.

Mrs. HILLS. You can be sure that we will monitor that, Mr. Chairman.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Let me ask you a parochial question, first, and if you are not versed with this I will ask you at some other time. Are you familiar with the Canadian-American plywood situation?

Mrs. HILLS. I am.

Senator PACKWOOD. All right.

In the Free Trade Agreement, we simply said we are not going to lower the tariffs until Canada entered into a common performance standard so that plywood made in the United States or Canada meets the same performance standards in both countries.

Mrs. HILLS. Correct.

Senator PACKWOOD. Canada is now bringing an action, one of these binational panels that we set up. I don't know what they are going to allege. That isn't the agreement. But is it your understanding that the tariffs are not going to go down until we get a common performance standard?

Mrs. HILLS. That is our position.

Senator PACKWOOD. All right.

Mrs. HILLS. We have a dispute. We have tariffs. They have not adopted the performance standards which make sense. And we will sit down and negotiate about it. I hope that the parties can work this out.

Senator PACKWOOD. A second question, partially theoretical. This relates to textiles, which is a relatively small industry in Oregon, so it is not a parochial question.

I was in Hong Kong late in the fall, and stopped to spend 3 or 4 hours with Diane Fries, who makes apparel, and spent about 4 hours with her and with her staff in going through her shop and how it operates. First, I was stunned to discover that the warehouse, there is this cacophony of color just from one end to the other, that she only makes 12 identical dresses of any pattern. So of necessity, her textile runs are quite small.

Hong Kong, of course, is a free port. Anybody can sell anything in Hong Kong. She cannot get American textile manufacturers to come and bid. They are not interested in her runs. They say we can't make money on those. Although somebody is making money on them. She doesn't make her own textiles; she contracts them out.

But the American textile industry has evidenced no interest. She says the Germans come, and the French come and Italians come, sales people trying to sell their textile wares, but not Americans.

If we believe in reciprocity and if we say, okay, you let us into your market, we will let you into ours, and given the situation of Hong Kong saying, come on in, should our position be to Hong Kong, all right, make what you want in Hong Kong and we will let it into the United States without limit, as you will let anything made in the United States into Hong Kong without limit?

Mrs. HILLS. Well as you know, under law, we have the Multifiber Agreement; we have a number of bilateral textile quota agree-

ments; we are not in a position now to open up our borders in a free fashion. That is an item on the GATT agenda. We would hope in time to bring textiles into a GATT discipline, but that is not where we are today. And there are a number of political and economic reasons why a surge of imports coming in from any given market would cause our domestic industry considerable difficulty.

Senator PACKWOOD. I realize what the present situation is, although the law can be changed. I was asking a theoretical question. But what you are saying is that even given a level playing field, there are circumstances—and I am not talking about national security. We all understand that as an exception. You are saying there are circumstances in which we should not open up our markets even though a foreign country says our markets are open to you.

Mrs. HILLS. Our Government has taken the position that where we have an industry, and I must say most governments around the world have taken the position, that where we have a particular industry that could suffer mightily to the detriment of large numbers of people, that we have provided some shelter while that industry gets adjusted to the world situation. And I think immediately to remove the protections in the textile area that admittedly are very large and cost the American consumer a good bit of money, would severely affect the textile industry that employs about 1.8 million people. These people are often in small rural communities, who have little training for other activities. Thus we as a government have taken the view that we would like to move step by step in a gradual fashion.

Senator PACKWOOD. Correct. We are approaching 200 years of gradualism in this industry.

Mrs. HILLS. Yes. [Laughter.]

That is why a multilateral approach, Senator Packwood, is so important; it would allow us to bring the textiles into a multilateral discipline. It is so difficult to do it on a one by one basis, because where you have an opening with one market and a surge with the other, the industry will suffer. We do not today have a level playing field in the textile market.

Senator PACKWOOD. Well I might just close by saying there are a number of industries in Oregon that would be happy to be suffering roughly the way the textile industry is suffering today.

Mrs. HILLS. That is a very good point.

Senator PACKWOOD. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Danforth.

Senator DANFORTH. Mrs. Hills, I congratulate you on your opening statement, and I am very pleased that the President has nominated you for U.S.T.R.

The 1988 Omnibus Trade Act had at its heart tougher Section 301 provisions and a new Super 301 process. The administration has two possible approaches to using these new measures. One is a sort of grudging acceptance that this is the law, a minimalist approach to enforcing these provisions of the 1988 Trade Act.

The other possibility is a much more activist approach where Section 301 and Super 301 form the basis for an aggressive administration trade policy that includes setting priorities in the pursuit of agreements to eliminate foreign barriers. Which of those two basic approaches do you see the Bush administration taking?

Mrs. HILLS. We will aggressively implement Super 301 and 301. These are the unilateral tools of which I spoke. We do not regard our unilateral tools as the ultimate purpose of our trade policy; by no means. We are not a retaliatory nation by choice. But our strategic goal is to open markets, and to have those markets be opened with the discipline of equitable rules we will need to use alternate tools like unilateral 301 retaliatory action.

Senator DANFORTH. Thank you.

The past administration spent a lot of time talking with the Europeans on the question of subsidies for the Airbus consortium. There has been little or no progress in this effort; no decisive action has been taken. The Airbus situation is an example of a broader issue, and that is the extensive involvement of foreign governments in those industries that they view as promising. And it is the view of many of us that this sort of intervention by European governments in the Airbus example and possibilities of replicating the same sort of situation in other industries could be very harmful to U.S. commercial ventures in critical sectors over the long term.

How do you expect to deal with the Airbus situation and how do you expect to deal with similar cases?

Mrs. HILLS. Well we are very troubled about the Airbus. You are right. We have been jawboning on this issue for quite a while, and we are aware that about $10 billion in subsidies over the past 15 years have gone to an industry which competes with a very important export industry of our own. We export $28 billion in the aircraft area. So this will be a top priority. We are quite concerned about the way in which all of the consortia in Europe has subsidized Airbus, and more recently about the subsidies that have been provided by the German Government. And we will be talking to them about that.

Senator DANFORTH. Well this has been a concern for some time, and we have been talking about it for some time. Do you have anything more concrete?

Mrs. HILLS. Well, I am not prepared to tell you what action we will take because I don't think a good negotiator publicly states what action will be taken. But I will tell you that we do have some very strong unilateral tools that we can use in these sorts of circumstances, and we will seriously consider them if our bilateral negotiations do not succeed.

Senator DANFORTH. A number of Federal agencies are becoming increasingly involved in decisions which have implications for our trade stance and industrial base. One example is the Defense Department's involvement in concluding with Japan an arrangement for the development of a new advanced fighter aircraft known as the FSX. The agreement calls for the co-development by Japan and the United States of a new aircraft. In point of fact, the best fighter aircraft in the world are made in the United States and could be bought off the rack from the United States.

What do you think specifically of the FSX agreement and how do you see the U.S.T.R. working with the Department of Defense, the State Department, and other agencies to make sure that U.S. commercial concerns are brought to bear on overall government policy?

Mrs. HILLS. A decision that you mentioned was not the problem of too many agencies being involved but perhaps too few. My un-

derstanding was that that decision did not go through the ordinary interagency process. And I would hope, if I am confirmed, to ensure that we do have a well coordinated trade policy where we do get the input from those agencies that have expertise in a variety of areas across government. As in this committee, their views may not always be alike. But it is important that the differences are seen and not unseen.

Senator DANFORTH. Thank you very much. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Heinz?

Senator HEINZ. Mr. Chairman, I regret not having taken the time to make my opening statement on behalf of Carla Hills. I strongly support her nomination.

The CHAIRMAN. I appreciate that, Senator Heinz. [Laughter.]

Senator HEINZ. I do want to make one observation and then ask a question or two.

The observation is that I think Mrs. Hills comes to this position at a time when there is a good deal of skepticism about the United States' ability based on the track record of the Tokyo Round to negotiate a square deal. There is the general perception, which I share, that in the Tokyo Round we made a lot of commitments to open our markets to lower our tariffs. In return, we expected subsidies to be reduced and eliminated. And instead, we not only saw, at best, a halfhearted attempt to eliminate subsidies, but a very energetic attempt to impair the benefits of that agreement with a number of new non-market barriers.

And it was not just more dumping, and subsidies and discriminatory government procurement, but in areas like intellectual property, services and investment. Now these, of course, are all subjects that are under negotiation in the Uruguay Round. And while I don't intend to pose this as a question to you, Carla, my observation would be that I hope and pray that you will bring to us either a good agreement or none at all. Because I don't think that it serves our country well, or your professionalism which we know to be high, were we forced simply for the sake of having an agreement to have one that was not, as I say, square.

Let me shift, if I may, to a subject that has concerned me for a long time, and it has to do with the question of whether we are well organized to deal with the growing challenge of technology transfer from this country to other countries. And the kind of technology transfers I have in mind include exports through our export control program, foreign acquisition of U.S. companies, and U.S. companies essentially surrendering to the competition by going out of business or into bankruptcy.

Now there are a wide variety of government decisions that impact on this problem. There is the granting of export licenses. There is the permitting of acquisitions under Exon-Florio. How we structure our tax laws, our government procurement policies, especially in the Department of Defense, how we regulate our financial markets, and so on.

It would seem that these decisions are made either one of two ways. Either independently and in a vacuum without an overall strategic game plan for our country—and I am talking about Gov-

ernment decisions now, not private sector decisions—or through some kind of interagency process where a least common denominator approach, as opposed to a strategic approach, is most likely to prevail.

My question to you is, if you generally agree with my analysis, are you satisfied with that kind of process? Do you believe that Government approaches these decisions comprehensively now? And if not, is there anything you feel should be done about it, whether it is within your power directly to affect it or not?

Mrs. HILLS. Senator Heinz, the Government does play a role, but in partnership with the private sector. The private sector has to be vigilant as well with its assets, which include its technology, and must proceed to maximize its opportunities in the market where we can pry them open.

You know, I would like to have you think of me as the U.S.T.R. with a crowbar where we are prying open markets, keeping them open so that our private sector can take advantage of them.

Now government can coordinate its various responsibilities so that we can see that the markets open to the greatest extent possible, and monitor the rules to keep them equitable, but we need the private sector to be innovative and aggressive. And I intend to work very closely with the private sector. We have about a thousand advisors. They have done yeoman duty. They have helped U.S.T.R. historically, and I intend to rely upon them even more.

Senator HEINZ. In your answer to Senator Packwood's question you indicated that through the 301 process you would be willing to take targeted retaliatory action.

Mrs. HILLS. Yes, sir.

Senator HEINZ. Most people believe that retaliatory action conventionally includes restricting access to U.S. markets. Is there any reason that it shouldn't include restricting access to U.S. technology?

Mrs. HILLS. Of course not.

Senator HEINZ. That really is the thrust of my question.

Mrs. HILLS. Absolutely. We must use the retaliatory tools that we have, not because we want to, but because they are the leverage that make credible a bilateral or a multilateral arrangement with the United States.

Senator HEINZ. My time has expired. Thank you.

The CHAIRMAN. Thank you.

Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mrs. Hills, as you well know, the American trade deficit with Japan is not improving. The fact is that our trade deficit with Japan is about three times the trade deficit of the next largest country with which we have a deficit. Our deficit with Japan is about one-third that of other deficits. In 1988, for example, even though our overall trade deficit worldwide improved 25 percent, the trade deficit with Japan decreased only 8 percent. In the figures for 1989 it looks like our trade deficit with Japan is getting even worse.

In addition, as you pointed out, the superconductor agreement is not working very well; that is, we are not getting market share in Japan as we should. The same problem exists with the super com-

puter agreement with Japan. Licensing is a problem. Agricultural products generally are a problem with Japan. On top of that, it is the administration's basic decision of whether to name Japan as a priority nation at our Super 301 hearings the next couple of months.

So my question is, what is your negotiating strategy going to be and what is your market opening strategy going to be with Japan, given the adverse trends, and given all these specific problems that we still have in the trade area with Japan?

Mrs. HILLS. We are going to talk very firmly with Japan about the problems that you enumerate, and make very clear that in partnership with the Congress we will be forced to use retaliatory measures, including 301, Super 301, Special 301 if we do not get results. Keep in mind that many of the barriers in Japan are invisible. They have brought down most of the visible barriers. The task we have is difficult. They know it is difficult. But we have to see some results.

Were I to say one thing to the Japanese today it would be: we must have results.

Senator BAUCUS. Do you know whether you, the administration, intends to name Japan as a priority nation under Super 301?

Mrs. HILLS. I am not prepared, as I am not confirmed, to advise you, although I do believe that you have been kept advised by the U.S.T.R.'s offices. And as you know, the report on priority countries and priority practices will be brought to you on the 30th of May. Meanwhile, it is my intent to consult with you so that we can develop a sound action pursuant to that report.

Senator BAUCUS. As you well know, our trade relations with Japan, not only in a factual level and in the terms we discussed, are strained, but also the two cultures are a bit strained. Our peoples are a bit strained. The Japanese people say to some degree that we complain too much. We, to some degree, think the Japanese are not sufficiently open. There is a big cultural gap, a big space gap between our countries. And probably the best result is to somehow form a partnership with Japan so that barriers are reduced, so that the perceptions are a little more accurate on both sides of the Pacific, and there is just more trade between our two countries. And the deficit, in the meantime, is reduced.

To what degree have you given thought to negotiating what some people call an economic accord with Japan? Some call it a free trade agreement with Japan. Some kind of mutual agreement with Japan so that we are not always resorting to Super 301's, or Special 301's, or whatever kind of 301's that you have in mind, because that is one-way negotiating. That is unilateral, which may be necessary. But to what degree have you given thought to a mutual approach? There is some talk that Prime Minister Takeshita might, when he visits the United States initiate or suggest some kind of a mutual negotiation which may undermine Super 301 unnecessarily and incorrectly. But to what degree have you given thought to a mutual approach so we can find more of a partnership with Japan?

Mrs. HILLS. Your point that some kind of a mutual agreement could undermine our flexibility with unilateral action is well taken. I will not put aside any possibility of solving the problem that we have with the Japanese bilateral trade deficit. But keep in

mind that were we to approach the Japanese with a bilateral agreement, we would have to give something so that they would give something. And since we are dealing primarily with invisible barriers that are so difficult to monitor, and on our side we are dealing primarily with items very visible and costly, we may not find ourselves in a good position at this time to reach a mutually advantageous accord. But I do not put it aside as an impossibility, just to note the difficult challenge.

Senator BAUCUS. Thank you.

The CHAIRMAN. Thank you.

Because of other commitments, we will have members coming and going here, so I would like to state that I am going to try for a 12:15 roll call, and we will need 11 members for a quorum. So if you will keep that in mind, I want to do all I can to move this along so Mrs. Hills can get on with the job.

Senator Bradley.

Senator BRADLEY. Thank you very much, Mr. Chairman.

Mrs. Hills, you have heard from many a number of us about the importance that is attached to the new round of trade negotiations. Do you think that a round can be successful without dealing with agricultural subsidies?

Mrs. HILLS. No. We must deal with agricultural subsidies. It is a problem that is so immense that we must get our trading partners to appreciate how much better off the world community would be by their elimination. And mind you, I am not saying that monies may not be given to farmers, but that trade distorting subsidies are what creates the trade problem. Where a farmer grows soybeans to get the check from his government, rather than to look to the market, that is the problem.

Senator BRADLEY. Thank you.

Do you think that a trade round could be successful without dealing with intellectual property?

Mrs. HILLS. We need to deal with intellectual property without question.

Senator BRADLEY. Will that be a priority of yours as you move into the negotiations?

Mrs. HILLS. Well as you know, those are the issues that have been stumbling blocks and were in Montreal. There were four left behind. And it will be our severe task to address agriculture, intellectual property, textiles, and safeguards. And we feel very strongly about all of these items.

Senator BRADLEY. Again, thank you. And do you think the Uruguay Round can be successful without at least seeing some newly industrialized countries graduated to fully developed status?

Mrs. HILLS. Well as you know, we have had the graduation of four of the newly industrialized East Asian countries, and that is the purpose of the program. So that now Mexico, I think, is the largest country under the GSP arrangement.

Senator BRADLEY. In the event that the Uruguay Round negotiations don't proceed as rapidly as you would like to see them, does it make any sense to you for a smaller group of like-minded nations to sit around the table and talk about issues in preparation for the discussions at the multilateral round? In specific, perhaps some of

the Pacific countries to sit around the table and talk about issues in which they have common agreement?

Mrs. HILLS. Our trading partners connected with the Uruguay Round can have my time 24 hours a day. I will sit with any group that can move ahead the Uruguay Round. I am aware that George Shultz recommended to the Pacific Rim countries to sit down and talk about their future and their economic well-being. And I would urge them to do so. And if I could play a part, or anyone in the office of the U.S.T.R. could play a part, or indeed I could come to one of you and say that you could play a part, that would be what I would try to accomplish.

Senator BRADLEY. Well I am very glad to hear that.

Let me ask you about the economic and trade relations with the Soviet Union. Do you have a position on the provision of the Most Favored Nation status to the Soviet Union in trade?

Mrs. HILLS. Well as you know, Senator Bradley, the Most Favored Nation status for the Soviet Union is hinged to their liberalization of their emigration policies, which have not been, to date, sufficiently liberalized.

Senator BRADLEY. So that you would make no attempt to advise the administration to liberalize, absent much progress, on human rights?

Mrs. HILLS. I think we really do need to see progress first.

Senator BRADLEY. Could I ask your opinion generally as to whether in economic dealings with the Soviet Union that you think it is better to have a trading relationship or better to provide them loans in sizeable amounts?

Mrs. HILLS. Well given the preference——

Senator BRADLEY. If you had a choice, which would you pick and why?

Mrs. HILLS. A trading relationship, depending on the nature of the trade—and by that, I mean nonstrategic trade—would benefit both sides of the arrangement.

Senator BRADLEY. Would it have an impact on the Soviet Union in terms of how it organizes its economic activity? I mean, for example, what would you want to buy from the Soviet Union?

Mrs. HILLS. It may encourage them to move down the road of creating exports for the foreign market. I haven't thought of the purchases that we would particularly want from the Soviet Union, but they do have oil exports and the like.

Senator BRADLEY. Thank you. Thank you very much, Mr. Chairman.

The CHAIRMAN. Senator Moynihan,

Senator MOYNIHAN. Welcome, Mrs. Hills.

Mrs. HILLS. Thank you.

Senator MOYNIHAN. I would like to call attention to a passage in your prepared testimony which notes the connection between the trade deficit and, although not explicitly, the budget deficit; that we have gross domestic savings of $560 billion while investments are $713 billion and the trade deficit is what makes up that difference. And that is about exactly equal to the budget deficit of the Federal Government.

Two things here in terms of the origins of this present crisis about trade. In the first half of the 1980's, the dollar appreciated 80

percent in 50 months. And I see you agreeing at the number. And this was associated directly with the onset of the Federal deficit and the need to bring in the borrowing that produced the deficit. That appreciation of the dollar was just devastating.

There is a company I think is well enough known, the Kodak Co., in Rochester, NY. They did something they never did in a century. They sent a letter to their shareholders called the dollar and Eastman Kodak, and they said the appreciation of the dollar had cost them a billion dollars in profit. And they explained that Kodak makes film in Japan, where they go head-to-head, toe-to-toe with Fuji, and Kodak has about 18 percent of the market and they do okay. But elsewhere they were wiped out because the appreciation of the dollar meant their film, as it were, was just 80-percent more expensive than it had been and in West Germany there was just no hope.

While this was happening we had a Secretary of the Treasury who every time he heard that the dollar had strengthened he said, that is just what we set out to do; a strong America.

It seems to me the trade deficit has created anxieties about our capacity as a nation. It was not the sudden collapse of the Kodak Co. They didn't forget how to make film in 50 months. They just got priced out of the market by fiscal policies in this city. And I wondered, since this committee watches trade, why U.S.T.R. said nothing. And I was wondering if you don't feel that you have a role or a responsibility to speak to the whole question of exchange rates and macroeconomic policies, which are so fundamental to trade patterns.

Mrs. HILLS. As you know, the U.S.T.R. has a seat on the Economic Policy Council, and I agree with you that macroeconomic factors have far more to do with our trade deficit than any bilateral or multilateral agreement will ever have. So our challenge is to weigh in on the macroeconomic decisions. We need to deal with the trade component, as well as with our domestic economic well-being, our foreign policy interests, which is the reason why I think it is so important to have a functioning and effective Economic Policy Council.

Senator MOYNIHAN. Well could I take great heart in what you just said, and just offer the comment that the tragedy of the 1980's would be a misreading of the origins of those two deficits, the trade deficit and the budget deficit, which are being read to state that the United States has lost its capacity to compete, is suffering from imperial overstretch, is inevitably in the state of decline? And I don't think that need be the case. I don't think it is the case at all. Would you agree?

Mrs. HILLS. I agree.

Senator MOYNIHAN. That trade deficit happened in 4 years. American industry didn't collapse in 4 years. The dollar changed in value so dramatically that they couldn't sell abroad for the most elementary reasons. And nobody in Washington said a word. Nobody gave any indication that they understood. The Treasury Department gave every indication that it had no idea what the price of the dollar meant. Strong is good. Right? Weak is bad, which is dumb.

Mrs. HILLS. The macroeconomic factors have a profound effect. That is not the end of the story. We still must be vigilant.

Senator MOYNIHAN. But it is in many ways the beginning, is it not?

Mrs. HILLS. It is certainly a factor, a very important factor, as our discourse on your first point makes very clear. And as far as the issue of competitiveness goes, I would say that our industries must understand that the whole global economy is going through a readjustment; that to be competitive, we must invest in our physical and our human capital; that we must know more about how to compete abroad. This isn't to say that if Kodak were to engage in a massive worker training program, that it could succeed against macroeconomic disadvantageous factors, but we have to work to get all of these things together.

Senator MOYNIHAN. I thank you very much. I found that helpful.

The CHAIRMAN. Thank you.

Senator Rockefeller.

Senator ROCKEFELLER. Thank you, Mr. Chairman.

Mrs. Hills, I just have three questions I would like to put to you. I would start off by saying I think you are going to be a terrific Trade Representative.

Mrs. HILLS. Thank you so much, Senator Rockefeller.

Senator ROCKEFELLER. Number one, we have coming up the matter of voluntary restraint agreements with respect to the steel industry. As you know, capacity is down; employment is down by about 55 percent; and that matter will come before the Economic Policy Council. You will be making recommendations with respect to this issue, and, in fact, if an extension is recommended, you will be negotiating the individual VRA's with the various countries.

The President has taken a position in favor of the extension of VRA's, although he has not put a number for the years on it. I would like to ask you, first, will you support aggressively within the Cabinet and within the Economic Policy Council the extension of the VRA's, and, second, would you favor extending it for an additional 5-year period?

Mrs. HILLS. Senator Rockefeller, as you know, the President, when Vice President, wrote a letter to Senator Heinz on the subject of extending the VRA's, and he articulatedhis policy goal as being to achieve an international consensus on eliminating market distorting practices, and pending that, to continue the voluntary restraint program when it expires. So that I guess my goal will be to try to achieve an international consensus on eliminating market distorting practices and if we are unsuccessful, we will, in the words of the new President, look to voluntary restraint agreements. I would rather not put a time frame on that. Perhaps we will have some luck.

Senator ROCKEFELLER. Thank you.

My second question involves the Japanese patent system and its relationship with U.S. high technology industries and the protection they receive for their intellectual property. It is not a widely understood problem within our trade community, but I believe that the slowness, inadvertent or deliberate, of the Japanese patent system is a major factor in preventing our companies—our high tech companies—from getting patents in that it takes a long time.

Only the strongest and largest of companies can hang in there for the 7 or 8 or 9 or 10 years often required to obtain a patent. The others frequently end up doing what is called "cross licensing," whereby in effect, they say, "Okay, give me the patent and I will give you my technology."

There are various fora where these issues are being discussed, and our Patent Office takes the lead, and U.S.T.R. and the International Trade Administration are also involved. I hope and ask that you give your strong and vigorous support to our Government's efforts to eliminate the constraints on trade created by the Japanese patent system.

Mrs. HILLS. You put your finger on one of the invisible barriers that is there. It is on my list. It is profoundly detrimental to our country. And,of course, I will give it my attention.

Senator ROCKEFELLER. My final question relates to the broader issue of how one deals generally with the Japanese. I don't think we have a U.S. trade policy towards Japan. We attack specific issues or products or, sometimes, sectors. There is a cross-Pacific barrage; and relations are hurt. Eventually, things are settled, but at a price. I don't think that a free trade agreement is the way to go with the Japanese because there is no way to deal with the invisible barriers, with the distribution system, with the problem of impenetrable long-term relationships. I think that those who favor an FTA approach are being naive with respect to Japan.

I wonder about predictability and expectations for those countries who will face your judgments relatively quickly on Super 301. If they had some sense of what your criteria is, it would might, in some cases, allow them to prepare to overcome their deficiencies. I think predictability is important.

I would also welcome your thoughts on creating a strategy for our trade policy to Japan.

Mrs. HILLS. Our overall strategy may sound so simple as not to suggest that it will be effective, but I believe that it is the strategy that we must follow, and that is: to open markets, which includes the Japanese markets, with equitable rules.

We have a list of grievances with Japan because in those sectors they have a profoundly detrimental effect upon certain of our industries. And so we must approach those first.

Now as I mentioned in my exchange with Senator Moynihan, we have got some adverse macroeconomic factors in our trade with Japan. They have stimulated their demand too little. We have stimulated our demand too much. And if we can have some strategic discussions, and not only with Japan, but with those who attended the Plaza Agreement on these macroeconomic factors, that provide such a distorting effect, I think we could be perhaps more successful.

Does that answer your concern?

Senator ROCKEFELLER. Yes, it does,

I might just say, in closing—and my colleague to the left will disagree with me very strongly on this—I think that Clayton Yeutter made a very wise, although very unpopular, decision. In fact, I thought it was a very courageous decision to take in the middle of a presidential campaign; indeed, near the end of it—the decision not to press forward on rice. Accepting the Section 301 petition

would have caused real difficulties in many other trade negotiations with Japan that one can say it is not worth pursuing on strategic grounds.

Finally, I just want to point out that I am impressed that Taiwan has been more responsive to our trade concerns than others have been.

I thank the Chairman.

Mrs. HILLS. Thank you.

The CHAIRMAN. Thank you. Senator Symms.

Senator SYMMS. Thank you, Mr. Chairman. And welcome to the committee, Mrs. Hills.

Mr. Chairman, I would ask unanimous consent that my preliminary statement to each question be submitted in the record in full.

The CHAIRMAN. Without objection, it will be done. And that will be true for Senators Cranston, Dole, Congressman Sisisky, Senator Riegle and all members of this committee, including the Chairman.

Senator SYMMS. Thank you.

As you are aware, the Canadians have recently pushed to get rid of the Memorandum of Understanding with respect to lumber between Canada and the United States, and I just wanted to ask you directly if we have your strong commitment to enforce the Memorandum of Understanding promptly and thoroughly?

Mrs. HILLS. Absolutely, Senator Symms.

Senator SYMMS. Thank you very much.

On another question, Mrs. Hills, you are familiar with the 1975 Trade Act provision that creates industry sector advisory committees, ISAC's. I would like your thoughts on the participation in those ISAC's by representatives of trade associations. Do you intend to keep some trade association representatives actively on those ISAC's?

Mrs. HILLS. I have not had the opportunity to look at the membership on the ISAC's. I would like to look and see who is serving now and coordinate that with the problems that I have enumerated that we face. But I can assure you that we will get good and talented representation, and that I have no rule against any category of persons so long as we can get their cooperation in helping us solve our problems.

Senator SYMMS. Perhaps we can follow up on that later. I think it is an important point, which might be very helpful in your operation, to have the broad base of various industries involved in those advisory groups.

Now another question that is very important to some of my constituents, as we are major producers of DRAM's in Idaho. I do think that former Secretary of Commerce, the late Malcolm Baldrige, and Clayton Yeutter, your predecessor, both had a reputation of being very tough, stand up people. And I am sure you are going to be tested, when new people come into office, those people that have an adverse position will probably put you to a test. And I just wanted to ask you with respect to the semiconductor agreement if you are prepared to impose further penalties if the Japanese violate it?

Mrs. HILLS. Absolutely. We have to have our agreements enforced. And where our trading partners are ignoring our agreements, we will have to take action.

Senator SYMMS. Thank you very much.

In May of this year, your office—and you have touched on the Super 301 cases a lot—but in May you will be called on to identify those trading partners who are most out of line. But doesn't it make sense to allow key countries to know quietly and immediately exactly what they must do possibly to avoid being added to that list, in your view?

Mrs. HILLS. I think the key countries with which we have an ongoing dialogue know the areas. Or if they do not, they very shortly will know the areas where we have very serious problems.

Senator SYMMS. My point is that I just feel that if we simply wait until May and then hit them with the 301 report, that it may be polarizing, that we might be able to avoid that polarization. As Senator Rockefeller pointed out, if you compare what Taiwan has done in contrast to Korea and Japan, it is a completely different ball game. They have made extra efforts to be cooperative. I sometimes become concerned about our foreign policy, and I wonder what your view is on the relationship between trade and some of the national security issues. You have touched on it slightly here this morning with respect to Senator Danforth's question, but is it plausible that we might sometimes be jeopardizing our strategic interests by engaging in confrontational trade battles with some of Our important allies in the Far East, such as the fight we had over turkey parts and kiwi fruit with our friends on Taiwan? Do you think sometimes that those issues are really worth the fight? Or do you think that we should be doing those things?

Mrs. HILLS. That is why we have an Economic Policy Council, Senator Symms. I believe the President will take into consideration the advice from his advisors that includes the national security implications, the Defense implications, but also the trade implications. And not to take into consideration trade implications is really a very serious matter. One could worry that you could accomplish both objectives if you kept your eye on both objectives. So this is one area of government where you have a President who can pull it together. And I think he should have the advice on all fronts,

Senator SYMMS. Thank you very much. I am looking forward to working with you and I wish you good success.

Mrs. HILLS. Thank you so much, Senator.

The CHAIRMAN. Senator Pryor.

Senator PRYOR. Thank you, Mr. Chairman.

Mrs. Hills, Senator Rockefeller, my good friend, just made a statement that I strongly agree with. He said his colleague on his left would not agree with his position, and he is correct. [Laughter.]

This is regarding rice. We also might note that West Virginia does not grow any rice. [Laughter.]

We grow a lot of rice in Arkansas, Mrs. Hills.

On October 28 last year, if we may go back a little bit in history, the very splendid U.S.T.R., Clayton Yeutter, rejected the Rice Millers' 301 petition against Japan. Here is his statement. "Japan's rice program is indefensible. It adversely affects not only our rice producers but those of other countries as well. The present situation is intolerable, and the Japanese program must be vigorously challenged. There can be no debate on this point."

George Bush—candidate Bush and candidate Dukakis even—supported the Rice Millers in this 301 petition.

Now you stated earlier that you are going to use, I think your terminology was the crowbar approach to opening markets. One, what will you do about this? And, two, when will you do it? And, three, what leverage will you use?

Mrs. HILLS. Let me say that we have in GATT a very important issue dealing with agriculture. If that is solved, the rice question is solved around the world. Now when Ambassador Yeutter made a strategic decision that November was not the time to use 301, I was not there, but I do not disagree with him. The Japanese have an opportunity to meet us halfway. We do have 301, but I want to use it at the proper time to get the kind of correction that we need to have in the rice market. And I think Senator Rockefeller would agree that if two trading partners can mutually agree to open a market as important as rice, it should be done. And that is what we are about, with a crowbar or with a handshake.

Senator PRYOR. We still have no idea of the timetable.

Mrs. HILLS. We will be meeting on the GATT issues in April if that helps you at all.

Senator PRYOR. Will anything be solved before the next rice crop is harvested, say, in the early fall?

Mrs. HILLS. We certainly hope so. We always like early solutions.

Senator PRYOR. Mrs. Hills, we all understand the sensitivity of the Japanese to this issue, and I was just kidding my friend, Senator Rockefeller, a little bit. But when we talk about dislocation, when we talk about changes in the structure of our own economic system, and talk about how we sympathize with the Japanese, they need to extend to us a little sympathy every now and then. We have had a lot of dislocation and I hope that you will press that point.

Mrs. Hills, let me also move to another area which may have been mentioned earlier by Senator Packwood or Senator Baucus, who are sort of champions of the timber growers around this table. This relates to the Canadian Free Trade Agreement and also the Softwood lumber Agreement which the Canadians are hoping will be eliminated. Do you support the elimination of that agreement?

Mrs. HILLS. No. The agreement that was signed in 1986?

Senator PRYOR. Yes.

Mrs. HILLS. No. That is a valid agreement between the parties.

Senator PRYOR. And you will work to keep that agreement in full force and effect?

Mrs. HILLS. Yes, indeed.

Senator PRYOR. I thank you very much.

And finally, and still on an agricultural point—this relates to Argentina and soybeans—the 1985 Agricultural Act recognized something that we now all call the differential export tax system which Argentina employs, not only to subsidize their soybeans and soybean meal, which deflates the prices around the world of the soybean crops. On two occasions at the highest echelons of government, the Argentineans have indicated or have promised to Ambassador Yeutter that this practice would be eliminated. Thus far, they have not eliminated it. I started to say they have reneged on

the deal, but they have not eliminated it. I won't go that far. Do you have a comment on this?

Mrs. HILLS. It is a matter that has been brought to my attention. Argentina is not the only country that has a differential tax to encourage the use of their product in their own refinery or a processing plant or what have you. We are in discussions with Argentina and it is a matter that we are addressing.

Senator PRYOR. Mrs. Hills, I still have five seconds left and I am going to yield back to—oh, I don't have any time left. I thank you very much for your answers. Thank you, Mr. Chairman.

Mrs. HILLS. Thank you.

The CHAIRMAN. Thank you.

Mrs. Hills, I think you have done well and you have answered with more specificity than I have normally heard by a person being confirmed. They usually fudge their answers more. So I congratulate you on that.

I see that we have our distinguished colleague, Senator Dole, and I now defer to him.

Senator DOLE. Mr. Chairman, I thank you very much. I am here to support the nomination as I hope everyone else is.

Mrs. HILLS. Thank you.

Senator DOLE. I know you have a time frame here, and I have a number of questions. Some relate to agriculture. There are a number of us on this committee who come from farm States, and we have some real problems in rural America. Some relate to Section 301, a section that many of us helped draft. I mention Airbus subsidies, for example. But I will submit these questions in writing, and ask that you might respond to them for the record.

Mrs. HILLS. I would be pleased to.

Senator DOLE. I will not take the time of the committee. I know they have three other witnesses. I certainly thank you for your continuing public service. And I look forward to working with you.

Mrs. HILLS. Thank you very much.

Senator DOLE. Thank you.

The CHAIRMAN. Thank you.

I would like to say in closing, Mrs. Hills, and I feel very strongly about this point, that we often have not done as good a job as other countries in coordinating our trade policy with our economic and foreign policy objectives. And in the turf battle among agencies that often takes place, trade is shunted aside, and the commercial interests of business and agriculture in this country are not properly served. We went to some lengths in the trade bill to see that when it comes to matters of trade policy the trade ambassador is number one. And that if there are economic meetings abroad where trade will be a part of the discussions, then the trade ambassador should be included. Time and time again we have seen economic summit meetings when the Prime Minister of Japan would have his trade minister with him, and our trade ambassador was left at home.

Have you had any assurances from the President at this point that you will play the central role on matters of trade policy?

Mrs. HILLS. The President has assured me that I am the administration's spokesperson on trade and that I will play a lead role on trade matters in his administration.

The CHAIRMAN. All right.

And has he said that the trade ambassador would be a participant in economic policy meetings?

Mrs. HILLS. I have a seat at the Economic Policy Council. I will take the lead role in developing the trade positions through the trade policy staff group and the trade policy review group. And I have had the pleasure of sitting down with my colleague, the Secretary of Treasury, and he and I have agreed that at the Economic Policy Council that I will have the lead role in dealing with trade issues and presenting those issues forcefully to the Economic Policy Council.

The CHAIRMAN. Does that also mean you are prepared to pack your bags to go to the February 3 meeting of the G–7?

Mrs. HILLS. I haven't been so presumptuous as to assume, prior to confirmation that I should be packing my bags.

The CHAIRMAN. Mrs. Hills, we will watch with great interest if you are a part of that.

Mrs. HILLS. Thank you.

Senator PACKWOOD. May I make one statement?

The CHAIRMAN. Yes,

Senator PACKWOOD. Let me make just one cautionary statement, I heard Senator Rockefeller make reference to the Japanese patent system and you have answered very specifically. Before you jump into that too quickly, let me just ask two or three outside academic experts whether the Japanese patent system is the odd man out or whether ours is? I think what you may find is theirs is more similar to the rest of the industrial world and ours is the unique one. Maybe it is a question of who should be changing.

Mrs. HILLS. On all of these issues which are complicated, we will need to consult not only with this committee, the private sector, but we will get the views of consultants. These are very complicated issues and veiled with culture implications; we want to have a sound policy with maximum impact for our commercial interest.

The CHAIRMAN. Mrs. Hills, the next witness is the only former trade ambassador that I recall that was included in economic summit meetings. I hope you will be as assertive. Thank you very much.

Mrs. HILLS. I will certainly try to be as assertive.

The CHAIRMAN. Thank you.

Senator BAUCUS. Mr. Chairman?

The CHAIRMAN. Yes.

Senator BAUCUS. Mr. Chairman, I know you have too little time with the witnesses ahead. I don't have any more questions to ask at this time because of that problem. I do have many questions though I would like to submit for Mrs. Hills to answer.

The CHAIRMAN. Oh, I have stated that all the members of the committee will be able to do that.

Mrs. HILLS. I would be pleased to answer any question you submit. And should you think of a question that is after the deadline, just send it over. I will answer that one too.

Senator BAUCUS. That is the attitude we like. Thank you.

The CHAIRMAN. Thank you very much, Mrs. Hills.

Mrs. HILLS. Thank you.

The CHAIRMAN. We appreciate your testimony.

Our next witness will be a person well known by all members of this committee who did an extraordinarily good job as trade ambassador, Mr. Robert Strauss. Mr. Strauss, I am trying to get to a vote. So I would ask you to limit your oral statement to 5 minutes so we can ask further questions. We will take your full statement for the record. And I would ask that the members limit their questions to 3 minutes.

STATEMENT HON. ROBERT S. STRAUSS, PARTNER, AKIN, GUMP, STRAUSS, HAUER & FELD, DALLAS, TX

Mr. STRAUSS. Thank you, Mr. Chairman, let me say I will try to be briefer than that. I suspect, having heard Mrs. Hills testifying and the reaction of this committee, that my testimony is a waste of time anyway. But I am pleased to be here. I like to be before this committee, as you know, and I have many friends here, having worked with them so long.

Let me commence at the end really by saying that I think your two last questions you asked and the point you made are the gut issues here. And I really believe that there is nothing that a President can do to enhance the performance, and the thrust and the ability of our U.S.T.R. to deliver than letting the world know that that job has full support and that person has his personal support, and as well I might add as the support of this committee and its counterpart on the other side, the Ways and Means Committee. It is essential. And if I were to advise a President, I would tell him not only going to summit meetings, but when he travels abroad for other reasons, any chance that he has to take the special trade representative with him if he or she can spare the time to go, and he can find the room, it enhances their stature, and enables him to deal much more effectively with leaders of foreign governments, not with ministers who are able only to nibble around the edges of problems instead of really strike at the heart of them.

And my judgment is, knowing Carla Hills, that she will have that relationship. And if she does not have it, my judgment is when they watch her perform for a few months, she will develop it. And that is really what I am hereto say.

I know that job pretty well, And I know Carla Hills pretty well. I have worked with both a long time. And it is a job that requires intelligence, and character, and guts, and good political judgment and an understanding of how government works. And Carla Hills has all of these qualities.

And my judgment also is that you on this committee and other members of the House and the Senate who are involved will see not just see as much of her as you want but you will see more of her than you want. And she understands the issues involved in the Uruguay Round.

I think she is a strategic thinker and she will deal with them in the way that it should be dealt with. I think she understands the kind of vigorous implementation the 1988 Trade Bill mandates require, and she will do that. And that is why I will close with this one final statement.

This trade job, as this committee knows better than anyone; is a bipartisan job, and that is why, as a Democrat, I am glad to be here

in support for Carla Hills. I have worked with her a long time. I know her well. She is smart. As I said, she is savvy, she is tough. She knows the Congress. I am very pleased they chose her and I think she is going to do a spectacular job. And if any of you have a question I would be pleased to respond.

The CHAIRMAN. Mr. Ambassador, you really did consult with us. I can recall in that role you consulted with us so much you almost convinced us that it was our idea. [Laughter.]

Mr. Strauss. Yes.

I can remember, Mr. Chairman, if I might interrupt to say, when I started dealing with you and your colleagues I had handsome dark hair, and it is now gray and thin, if you will pardon my saying so. [Laughter.]

The CHAIRMAN. I have no further questions.

Senator PACKWOOD. I have no questions, Mr. Ambassador.

The CHAIRMAN. Senator Danforth.

[No response.]

The CHAIRMAN. Senator Baucus.

Senator BAUCUS. Mr. Chairman, thank you. Bob, in addition to the President, including Carla Hills, when he travels on trade missions or G–7 missions, or whatever, what other two or three most significant signals do you recommend that our new U.S.T.R. and the President send to the world to show that we are serious on trade?

Mr. STRAUSS. Oh, I think the things that have been discussed here before this committee. I think when Carla Hills speaks she must speak forcefully and clearly, as she has testified here on these issues. I think when the President speaks, the President should do the same, and he should also let the world know that Carla Hills speaks for him and that we take this seriously.

The criticism I have had with the past administration was they had first-rate people. I don't know how you would get two better people than Bill Brock and Clayton Yeutter. And I don't think, frankly, that the President gave them the kind of support they needed and he didn't include them in ways they should be included which made their voices less effective than they would have otherwise been. And they were still very effective.

If they had had the kind of Presidential support I had, they would have done even a better job than they did. And they did a very good one.

Senator Baucus. Thank you.

The CHAIRMAN. Senator Moynihan.

Senator MOYNIHAN. Could I just ask our friend, and advisor and confident. You don't have to answer this if you don't want, but when you left the office, the trade situation of the United States was in very good shape, was it not? We were in surplus, were we not?

Mr. STRAUSS. That is correct.

Senator MOYNIHAN. The United States recently—not that far back—in 1981 we had a trade surplus. Is it your impression that American industry collapsed in the following 50 months?

Mr. STRAUSS. No, it is not, Senator.

Senator MOYNIHAN. So it might have had something to do with what went on here in Washington?

Mr. STRAUSS. I think it had a great deal to do with macro issues that overtook American industry. I don't think we are blameless on our side, and I surely think that the point you are making is well taken.

Senator MOYNIHAN. Thank you very much, sir.

Mr. STRAUSS. Thank you, sir.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. No questions, Mr. Chairman.

The CHAIRMAN. Senator Pryor.

Senator PRYOR. No questions, Mr. Chairman.

The CHAIRMAN. I would like to ask one further question, Mr. Ambassador. There has been a leveling off of the trade deficit and perhaps a turning around of it and not for the better. And I have a deep concern that the current accounts the deficit is going to worsen in at least in the near-term future. Do you have any comment on that?

Mr. STRAUSS. Yes. I share that view, Senator Bentsen. We are approaching capacity to the extent here that I think we are going to see our American companies, first, with less product to export. I think you are also going to see them concentrate more on the domestic markets than the foreign markets. But reverse a trend that we saw that was positive in terms of exports commenced about 12 to 18 months ago. I think we have to watch it very carefully.

We have not only leveled off, I am worried that we are getting ready to go over the other direction.

The CHAIRMAN. So am I. Thank you very much.

Mr. STRAUSS. Thank you, sir. Thank each of you for permitting me to be here.

The CHAIRMAN. Our next witnesses are a panel consisting of Mr. James Burke, who is the chairman of the board, chief executive officer of Johnson and Johnson, New Brunswick, NJ; and Mr. Anthony Harrigan, who is the president of U.S. Business and Industrial Council, Washington, DC.

Gentlemen, welcome.

Mr. Burke, if you would proceed. And I would ask you gentlemen if you would limit your oral statements to 5 minutes. We will take your entire prepared statements. And I would ask the members to limit their questions to 3 minutes.

STATEMENT OF MR. JAMES E. BURKE, CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER, JOHNSON AND JOHNSON, NEW BRUNSWICK, NJ

Mr. BURKE. Thank you, Mr. Chairman. It is a great honor for me to appear today and to testify on behalf of Carla Hills. I want to begin by saying I agree that Carla Hills is exceptionally well qualified to manage the priority issues that are going to face the U.S. Trade Representative. Therefore, I urge strongly that the Senate act expeditiously to confirm her nomination.

I appear today not on behalf of any particular organization but rather as an international businessman. For the record, I am the chairman of the board and chief executive officer of Johnson and Johnson, and in addition to my position with Johnson and Johnson, I currently serve on the planning and policy committees of the

Business Roundtable, an association of business executives which examines public issues that affect the U.S. economy and develops positions which seek to reflect sound economic social principles. In that capacity, I work with the members of the Business Roundtable's Task Force on International Trade and Investment to help enhance the U.S. business position in international markets. I also am a member of the President's Advisory Committee on Trade Negotiations.

Johnson and Johnson is also active in the U.S. Intellectual Property Committee, which is working with the U.S. Government, foreign business associations, and foreign government officials to achieve more effective protection of intellectual property rights. Also, my company was actively involved in the effort to negotiate and implement a free trade agreement between the United States and Canada.

I want to say that I believe that President Bush has assembled a team of international policymakers exceptionally well-equipped to work with the Congress, the U.S. business community, and our trading partners to meet the great challenges that lie ahead. The U.S.T.R. is an essential, if not the most vital part of that team.

There are several key criteria that a U.S. Trade Representative should satisfy, and my testimony which I have submitted outlines those criteria.

I simply want to say that having had the opportunity to work closely with Carla Hills on many projects over the last several years, including our joint service on the board of directors of IBM and our work together for the Urban Institute, I believe that she clearly meets all of those criteria that I have submitted and which have been discussed today.

Carla Hills is exceptionally well qualified to meet the many complex international economic challenges facing the United States.

The U.S. business community anticipates a continuation of the excellent working relationships developed with both the Congress and the executive branch during the past several years. That relationship was critical in the development and passage last year of Omnibus Trade legislation.

I would simply like to close my oral remarks by saying I agree with what Senator Rockefeller said earlier: "I think Carla Hills will make a terrific Trade Representative."

Thank you. And I would be happy to take any questions.

[The prepared statement of Mr. Burke appears in the appendix.]

The CHAIRMAN. Thank you.

Mr. Harrigan, if you would proceed with your statement.

STATEMENT OF MR. ANTHONY HARRIGAN, PRESIDENT, U.S. BUSINESS AND INDUSTRIAL COUNCIL, WASHINGTON, DC

Mr. HARRIGAN. Mr. Chairman, I am Anthony Harrigan, president of the U.S. Business and Industrial Council, a 56-year-old business spokesman organization, representing 1,500 member companies in all parts of the country. I appreciate this opportunity to testify.

Our council is deeply concerned about this nomination because it is deeply concerned about the loss of American economic preemi-

nence. This loss stems not only from foreign trade offensives but from the passivity and economic appeasement that has characterized our government's approach to trade policy in recent years. The U.S. Business and Industrial Council believes that the United States is losing a trade war and cannot regain its industrial-technological leadership without trade negotiators who have a record, beyond question, of dedication to the American national economic interest.

Therefore, we are deeply troubled by the nomination of Mrs. Carla Hills as U.S. Trade Representative.

In 1985, Mrs. Hills registered with the U.S. Justice Department as a foreign agent for Daewoo Industrial Co., a Korean company that pleaded guilty to criminal charges. Most recently, she was a partner in the law firm of Weil, Gotshal & Manges, which is a registered agent for Matsushita Electric Co. of Japan.

At her previous law firm—Latham, Watkins and Hills—the nominee represented foreign clients. Her husband, Roderick Hills, was a registered foreign agent for C. Itoh & Co., the Japanese trading giant that lobbied against stiff trade sanctions against Toshiba Corp., which sold the most sensitive submarine technology to the Soviet Union.

We believe this pattern of activity should give pause to the Senate when it is called on to advise and consent to this nomination.

To the best of our knowledge, a former registered foreign agent has never been chosen to be the chief trade negotiator for the United States. We doubt that the American people, whose livelihood is involved in foreign trade negotiations, will think well of a departure from standard practice.

The Congress has been properly concerned about the revolving door phenomenon whereby former U.S. officials get rich by going to work for foreign interests after leaving the public payroll.

The Congress passed by an overwhelming vote legislation to stop the revolving door. Unfortunately, the legislation was vetoed by President Reagan. What we have in the case of Mrs. Hills is a sort of reverse revolving door, someone who has represented foreign interests in coming in to serve in the most sensitive post regarding American industry and technology.

We recognize that the nominee is very capable, experienced in government, and a proven administrator. But if she is confirmed by the Senate, the public surely will continue to ask questions.

The perception will exist that her previous service as a registered foreign agent will affect her decisionmaking. And what about the nominee's role after leaving government service? Will Mrs. Hills pledge that she won't represent foreign clients after she leaves the Trade Representative's post, if she is confirmed? The American people are entitled to that, at the very least.

Foreign lobbying is a scandal in this country, though largely unreported in the media. A member of Congress reports that 113 law and public relations firms in Washington represent Japanese interests alone. And that member of Congress also reports that the Japanese spend upwards of $100 billion a year on lobbying, as the Chairman mentioned.

The CHAIRMAN. Mr. Harrigan, if you would summarize, please, and close, please.

Mr. HARRIGAN. The foreign lobbying is aimed to weakening the American resolve to resist targeting and other efforts to penetrate and dominate the domestic market.

Foreign lobbying is facilitated these days by the establishment of so-called foreign transplant factories and subsidiaries that pretend to be American in character.

The members of this committee are keenly aware of the vulnerability of American industries to foreign targeting. The United States will lose economic sovereignty if its government continues to fail to develop a militant strategy for trade negotiations.

The CHAIRMAN. Thank you, Mr. Harrigan. We will take your entire statement in the record. I want to be sure that we have time to ask some questions.

[The prepared statement of Mr. Harrigan appears in appendix.]

The CHAIRMAN. You made the point that Mrs. Hills, because of her prior representation of foreign clients, might be put in a very difficult position to be forceful or effective in representating of U.S. trade interests. In fact, you stressed the possibility of conflicts of interest. On the other hand, we have had some observers who have been concerned because they thought she did not have enough experience in trade. What I am trying to understand from your statement is, are you suggesting that we can never appoint any person as U.S.T.R. Who is broadly experienced in trade matters?

Mr. HARRIGAN. No, Mr. Chairman. I am suggesting that we should have a very experienced, capable negotiator who has exclusively represented U.S. interests and who is publicly recognized as 100-percent dedicated to the U.S. national interest in trading matters.

The CHAIRMAN. Senator Packwood.

Senator PACKWOOD. Mr. Harrigan, on page 5 of your statement you say, "However, foreign lobbying is facilitated these days by the establishment here of so-called foreign 'transplant' factories and subsidiaries that pretend to be American in character." What do you mean by that?

Mr. HARRIGAN. The transplant factories are engaged—to my mind, to mind of our organization—in taking jobs from Americans rather than creating them.

Senator PACKWOOD. Taking what?

Mr. HARRIGAN. They are destroying jobs of Americans rather than creating them, sir.

Senator PACKWOOD. I am confused. I will give you an example. Seiko Epson has a plant in Oregon. It makes printers. It is the Epson part of it. It is their biggest plant in the United States.

Mr. HARRIGAN. Yes.

Senator PACKWOOD. Printers, I am amazed to learn, are 75 percent of Seiko's business; watches are about 15. It has got about 600 employees. I would judge 8 to 10, maybe 15, are Japanese nationals; the rest are Americans. Is this bad?

Mr. HARRIGAN. I am not familiar with that particular situation, Senator. But if you look at the typical Japanese transplant in this country, the plant comes in as in Nissan in Tennessee, which I am familiar with, an entire network of Japanese suppliers.

In the case of the Toyota plant in Kentucky, even the construction firm was Japanese and the State was required to put up almost $500 million.

Senator PACKWOOD. Are you opposed to foreigners investing in the United States?

Mr. HARRIGAN. I think that there ought to be much stricter rules than exist today, yes. Otherwise, we get a form of new colonialism in this country.

Senator PACKWOOD. And you feel the same about American investment overseas. It should be severely restricted by foreign countries.

Mr. HARRIGAN. That is a decision for them, sir. They have to determine whether it is good for their country, whether they want an American plant or not.

Senator PACKWOOD. You don't think it is very good that we have foreign-owned plants here?

Mr. HARRIGAN. They are not a satisfactory substitute for American-owned plants.

Senator PACKWOOD. If we allow a company to come here. We allow Seiko to come put up a plant with 600 people, should they be entitled to legal representation in this country?

Mr. HARRIGAN. Not as they have today. I think because we have a very bad situation when foreign companies——

Senator PACKWOOD. You say no, they shouldn't be?

Mr. HARRIGAN. I think they should be drastically limited. There should be legislation to limit the amount of lobbying that can be done by foreign interests.

Senator PACKWOOD. I didn't say that. Can they hire a good attorney or is that impermissible?

Mr, HARRIGAN. We should bear in mind that they are not truly American companies. I think we need to make a distinction between foreign companies, whose profits are repatriated abroad, and American-owned companies.

Senator PACKWOOD. Let me ask you. You say the integrity of lawmaking and policymaking is compromised by foreign influence?

Mr. HARRIGAN. Yes. I would say that in the case of Toshiba.

Senator PACKWOOD. Do the Japanese bug you more than the British?

Mr. HARRIGAN. Yes, they do because we have a long standing peaceful relationship with Britain, the closest ally that we have in the world. And we have a country like Japan that is closed, highly centralized and predatory in the national economic community.

Senator PACKWOOD. So it doesn't bother you that Britain is the biggest investor in this country and has been for the last 2 years?

Mr. HARRIGAN. No, I don't think that should cause us the same degree of concern, sir.

Senator PACKWOOD. Do you belong to a political party?

Mr. HARRIGAN. No. I am an Independent, sir.

Senator PACKWOOD. I thought maybe it was the Know Nothings. I apologize.

Senator MOYNIHAN. Senator Packwood, could I ask you to yield for one point?

The CHAIRMAN. No. Let me keep the sequence here if I may.

Senator Danforth?

Senator DANFORTH. No questions, Mr. Chairman.

The CHAIRMAN. Senator Baucus?

Senator BAUCUS. Thank you, Mr. Chairman.

Mr. Burke, I would like to change the subject if I could.

Mr. BURKE. Yes, sir.

Senator BAUCUS. It addresses how the United States can even more effectively represent its interest in trade matters. Not too long ago I had breakfast with Mr. Marita Sony. I said to him—it was a little over a year ago—let's assume that the new President of the United States, whether it is Michael Dukakis or George Bush, calls you up the day after the election and says, Mr. Marita, you have carte blanche to be the U.S. trade policy developer to develop the most aggressive economic policy for the United States of America. What would your advice be to the new President? And he immediately answered, well, first, he would abolish the SEC. Getting into it more deeply, I realized he meant that U.S. businessmen relied too much on quarterly reports, 10Ks, et cetera. But he also then said immediately, look, you have got a Department of Agriculture, you have got a Department of Interior, you have got a Department of Housing and Urban Development, you have all of these departments. The world is changing. You need a Department of Trade. You have to much more aggressively recognize the competitive realities in the world. You need to focus much more on trade.

As you know, there have been lots of proposals to organize or merge perhaps Commerce with the U.S.T.R., and there are some pluses and minuses with all those proposals. Some suggest even within the White House that the NSC include the U.S.T.R., and maybe the Commerce Secretary, so that trade and economic policy is co-equal with national security within the White House.

Do you have any thoughts about how the United States or the White House perhaps, should reorganize to help make sure that trade policy does in fact have a higher priority?

Mr. BURKE. You ask a very complicated question, Senator. I think all of us in business would agree with Akia Morita, that we need greater coordination in Washington than we have. And I think most of the departments in Washington, which somebody mentioned earlier, we need a coordination between trade policy, economic policy and foreign policy. And I think it is a long time in coming. And I would urge all of you who can make things happen down here to address that issue.

One of the reasons I mentioned as I did the strength of the group that this administration has put together is that I believe that those people that are now in place, or will be in place if they have your consent, are extremely well qualified to bring these groups together in a far more orderly way and a far more aggressive way. And I think that will happen.

Senator BAUCUS. But do you think we should, therefore, leave the boxes and flow charts the way they are, and just have good people, or would you also rearrange some of the boxes a bit?

Mr. BURKE. If rearranging some of the boxes is necessary—I wouldn't know how to tell you how to do it—I think that the most important thing is to have good people, all who are, as opposed to Mr. Harrigan, in agreement with a free trade open policy toward

the rest of the world. And that I think with the kind of minds that you have brought together, we are going to be better off, not worse off, in the future. I really don't have any answer to the complexities of bringing those people together.

Senator BAUCUS. All right. Thank you. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you. Senator Moynihan.

Senator MOYNIHAN. No questions, Mr. Chairman.

The CHAIRMAN. Senator Rockefeller.

Senator ROCKEFELLER. Yes, Mr. Chairman.

I don't have a question. I would just like to say, Mr. Harrigan, that I resent what you said about Mrs. Hills. I think there is an innuendo that because that she or her husband is engaged in private practice and that she has not submitted her entire life to the public service, there is something wrong. I think that if anything has come through both in my private conversations with her and in her public testimony here, it is integrity. She is going to be recusing herself and has agreed to take additional measures to avoid any appearance of a conflict of interest. She has done that also in terms of her husband's activities. Beyond that, I think there is the reading of her as a person; and I don't know whether you know her as a person or whether you are just representing a viewpoint based upon this perception of yours.

As a person, she radiates tremendous integrity and toughness. I don't think her patriotism can be challenged. She has been in the Cabinet. She is experienced. She is willing to take on what I think is probably the hardest job in the U.S. Government, outside of the Presidency. And you come up here with this kind of slashing attack on her, which I think is personal and uncalled for.

I happen to think you are very wrong, and I think that the committee vote will reflect what we feel about Mrs. Hills.

Mr. HARRIGAN. If I may have the opportunity to reply, Senator. In no sense is it a personal attack or any innuendo. It is a matter of principle for our organization. And we would make the same comment regarding any individual who came before the Senate for confirmation on trade matters. We would be concerned about the background of anyone nominated for Undersecretary of State for Economic Affairs or in charge of import administration in the Commerce Department.

Certainly the associations, the background of an individual is considered. The Senate usually scrutinizes these matters with great care. And I think we are perfectly within our rights and in an appropriate way are registering our objection to the fact that somebody who has been a registered foreign agent isn't suitable for this job.

Senator ROCKEFELLER. I won't persist, Mr. Chairman.

Mr. Harrigan, you are very welcome to express your views. I am just delighted that she is going to prove you utterly wrong.

The CHAIRMAN. Senator Symms.

Senator SYMMS. No questions, Mr. Chairman. I just want to welcome both of the witnesses here this morning and thank them for giving us their views.

Mr. BURKE. Thank you.

Mr. HARRIGAN. Thank you.

The CHAIRMAN. Senator Pryor.

Senator PRYOR. No questions, Mr. Chairman. Thank you.

The CHAIRMAN. Gentlemen, thank you very much. We are pleased to have your testimony.

Mr. BURKE. Thank you, Mr. Chairman.

Mr. HARRIGAN. Thank you, sir.

The CHAIRMAN. The hearing is concluded.

[Whereupon, at 12:14 p.m., the hearing was concluded.]

APPENDIX

ALPHABETICAL LIST AND MATERIAL SUBMITTED

Statement of the Honorable Lloyd Bentsen
At A Hearing on the Nomination of Carla A. Hills
To Be U.S. Trade Representative (USTR)

Friday, January 27, 1989

Mrs. Hills, over the years, this Committee has been fortunate to work closely with a distinguished group of Trade Representatives, and we look forward to working closely with you as well. This Committee has a close relationship with USTR, both by law and by tradition, and I intend to do everything I can to preserve and protect that relationship.

In that regard, I suggested this hearing be held back on January 4 of this year, because I wanted you ready to move out smartly in this job as soon as possible. Unfortunately, that date was not possible, and this is the earliest date we could get you together with the Committee for this hearing.

Under our Constitution, the responsibility for creating and implementing trade policy is shared by the Executive Branch and the Congress. Congress has the broad power to impose tariffs and to regulate trade with foreign countries, but cannot negotiate for our country. The President may negotiate trade agreements, but he cannot implement the in domestic law without action by the Congress. For the last 55 years, this Constitutional paradox has been resolved by cooperation between Congress and the Executive Branch.

And over most of the last 55 years, ever since the era of Cordell Hull and the 1934 Reciprocal Trade Agreements Act, a spirit of close cooperation is what has prevailed in relations between the Finance Committee and successive administrations. Unfortunately, there were problems during the last eight years. The last Administration chose to go its own way most of the time. If we were consulted at all, too often it was after the fact.

I believe that situation is behind us now, with a new Administration and a new nominee to be U.S. Trade Representative. President Bush has already gone a long way toward establishing a new relationship with the Congress through his recent overtures.

We also have a new blueprint for cooperation on trade policy, the Omnibus Trade Act of 1988. That law expands the tools the Administration can bring to bear on trade problems and the new round of GATT negotiations. It strengthens the hand of the Trade Representative as the

Administration's chief spokesman on trade. At the same time, it places the requirement of consultation with Congress on a new, stronger footing.

For example, we simply got stiffed by the last Administration when it came to trade negotiations. The failure to consult almost killed the U.S.-Canada Free Trade Agreement. The new Trade Act, while extending fast-track Congressional procedures for bills to implement trade agreements, for the first time ties the continuance of the fast track to continuing consultation between the Executive Branch and the Congress on negotiations and other trade matters. Under the so-called "reverse fast track" we can revoke the fast track if the Administration fails to listen to our concerns or to keep us informed. What we mean is, we want no surprises. Believe me, I won't hesitate to introduce a resolution to remove the fast track if the cooperation is not there. But I do not expect I will have to.

I anticipate we will be meeting with you often to discuss trade issues. The new Act sets up a series of checkpoints on trade, as important reports and determinations required by the Act are issued by the Administration. We have scheduled oversight hearings on March 1 and April 19, in order to exchange views on these issues as they come up. We scheduled these hearings much earlier than normal because we wanted to give you and your staff enough lead time to prepare. And we wanted the rest of the Administration to know that trade issues cannot be swept under the rug.

I expect we will want to schedule some informal sessions with you as well.

You have a tough job ahead of you. There are a lot of hard decisions to be made in the coming months, and the Uruguay Round negotiations are at a crucial stage. But I think you will find that if you're ready to work with the Committee, the Committee will work with you, and you can hardly find a better ally.

United States
Office of Government Ethics
P.O. Box 14108
Washington, D.C. 20044

January 23, 1989

Honorable Lloyd Bentsen
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

In accordance with the Ethics in Government Act of 1978, I enclose a copy of the financial disclosure report filed by Carla A. Hills, who has been nominated by President Bush for the position of United States Trade Representative.

We have reviewed the report and have also obtained advice from the Office of the United States Trade Representative concerning any possible conflict in light of the Office's functions and the nominee's proposed duties. Enclosed for your review are copies of letters from Mrs. Hills, Mr. Hills and the General Counsel and Designated Agency Ethics Official of the U.S.T.R., Judith Bello. These letters set forth in detail the steps Mrs. Hills intends to take in order to avoid even the appearance of conflict, the steps Mr. Hills intends to take in his business activities in order not to create even the appearance of conflict for Mrs. Hills, and the guidelines U.S.T.R. intends to use in counseling Mrs. Hills with regard to certain future matters. We believe that these letters appropriately address all actual or potential conflicts of interest. Based thereon, I believe Mrs. Hills is in compliance with applicable laws and regulations governing conflicts of interest.

Sincerely,

Frank Q. Nebeker
Director

Enclosures (4)

SUMMARY OF STATEMENT OF JAMES E. BURKE

I am testifying today in support of the nomination of Carla A. Hills as United States Trade Representative. Mrs. Hills is exceptionally well-qualified to deal with the important economic challenges facing the United States.

Having worked with her on many occasions in the last several years, I believe strongly that Carla Hills meets all of the key criteria one seeks in a U.S. Trade Representative. She has a broad understanding of economic and social issues, outstanding leadership qualities, proven negotiating skills, a demonstrated capacity to manage staff, an ability to master new and often complicated issues, abundant experience in both government and the private sector, and the highest degree of personal integrity.

The United States faces important challenges in the Uruguay Round of multilateral trade negotiations and in bilateral relations with the European Community, Japan, and other trading partners. Carla Hills possesses the talents and attributes to meet these and other international economic challenges, and to manage and develop U.S. trade and investment policy. I therefore strongly urge her expeditious confirmation.

STATEMENT OF JAMES E. BURKE

Mr. Chairman, it is a great pleasure for me to appear before you today to testify in support of the nomination of Carla Hills as United States Trade Representative. I know that all of us share an understanding that international trade and investment are critical to the economy and security of the United States. Our country faces a number of important international economic challenges in the weeks and months ahead. I believe that Carla Hills is exceptionally well-qualified to manage these priority issues and to meet any challenges. Therefore, I urge the Senate to act expeditiously to confirm her nomination.

I appear today not on behalf of any particular organization, but rather as an international businessman. For the record, I am the Chairman of the Board and Chief Executive Officer of Johnson & Johnson. In addition to my position with Johnson & Johnson, I currently serve on the Policy Committee of The Business Roundtable, an association of business executives which examines public issues that affect the U.S. economy and develops positions which seek to reflect sound economic and social principles. In that capacity, I have worked with the members of The Business Roundtable's Task Force on International Trade and Investment to help enhance the U.S. business position in international markets. I also am a member of the President's Advisory Committee on Trade Negotiations.

Johnson & Johnson is also active in the U.S. Intellectual Property Committee, which is working with the U.S. Government, foreign business associations, and foreign government officials to achieve more effective protection of intellectual property rights. In addition, my company was actively involved in the effort to negotiate and implement a free trade agreement between the United States and Canada.

I believe that President Bush has assembled a team of international economic policymakers exceptionally well-equipped to work with the Congress, the U.S. business community, and our trading partners to meet the great challenges that lie ahead. The United States Trade Representative is an essential part of that team.

I believe that there are several key criteria that a United States Trade Representative should satisfy.

First, the Trade Representative should have a broad understanding of economic and social issues, and of the importance of trade and investment policy to the safeguarding of U.S. economic and security interests.

Second, the Trade Representative should have strong leadership qualities in order to achieve three important results:

(i) building institutional confidence within the Office of the Trade Representative;

(ii) gaining domestic and international confidence that U.S. trade policy is in strong and capable hands; and

(iii) forging close cooperation both within the U.S. Government and with the private sector -- cooperation that will make clear that on trade and investment issues the United States is speaking with a unified and not a divided voice.

Third, the Trade Representative should be a shrewd and tough negotiator.

Fourth, the Trade Representative should have a demonstrated ability to manage staff and to master new and often complicated issues.

Fifth, the Trade Representative should be an experienced individual who has shown an ability to work effectively with the Congress.

Sixth, the Trade Representative should be a person of the highest integrity.

Having had the opportunity to work closely with Carla Hills on many projects over the last several years, including our joint service on the board of directors of IBM and our work together for the Urban Institute, I believe that she clearly meets all of the criteria I have discussed. Her law practice, teaching responsibilities, and service on the boards of directors of several major U.S. multinational corporations have provided her with a comprehensive understanding of the economic and social challenges confronting the United States. In both her public and private positions, she has demonstrated outstanding leadership qualities, management and negotiating skills, and an ability to master many highly complex issues.

As you know, Mrs. Hills has held a variety of senior positions in both the public and private sectors. She has served as the Secretary of Housing and Urban Development, Assistant Attorney General in charge of the Civil Division at the Department of Justice, Chairman of two sections of the American Bar Association, co-founder of a Los Angeles law firm, and most recently as co-managing partner of the Washington office of another law firm. In addition to her substantial professional responsibilities, Mrs. Hills also has found the time to maintain a dedication to public service. Her considerable experience in this regard has included service as Chairman of the Urban Institute, Vice-Chairman of President Reagan's Commission on Housing, and as a member of President Reagan's Commission on Defense Management and of the Executive Committee of the bipartisan American Agenda. In all of these endeavors, she has shown a great interest in and dedication to ensuring the maintenance of a strong and vigorous U.S. economy. It also is quite evident from Carla Hills' record of previous government service, numerous public interest activities, private law practice, and business responsibilities that she is an individual of the highest integrity.

Carla Hills is exceptionally well-qualified to meet the many complex international economic challenges facing the United States. As you know, we have just passed the mid-point of the Uruguay Round of multilateral trade negotiations. These negotiations will establish the rules to govern trade in goods and services, investment opportunities, and intellectual property protection. In a nutshell, they will define how U.S. businesses will be able to operate globally through at least the end of this century. Following last month's midterm review session in Montreal, the negotiations now are entering an especially important and sensitive stage. Several important decisions on the framework of the negotiations were postponed from Montreal to

this April's meetings in Geneva. I cannot stress enough the need to have a strong team of U.S. trade negotiators in place as soon as possible in order to ensure that the Uruguay Round is completed on time and that U.S. interests are well served.

The next four years also will witness the emergence of an integrated Western European market which will present both substantial opportunities and potential threats to U.S. businesses. Here, too, the challenges compel a team of strong and skilled U.S. trade negotiators who can effectively coordinate the U.S. response to the European 1992 initiative, and who can understand how this initiative may relate to European negotiating positions in the Uruguay Round.

Bilateral trade challenges also will continue to confront us in the weeks and months ahead. For example, considerable work remains to be done on the implementation of the U.S.-Canada Free Trade Agreement. We must also continue to work to increase U.S. access to the Japanese and other foreign markets. In these and other areas of bilateral trade relations, any delay in putting our new team of trade negotiators in place will only serve to undermine U.S. interests.

In addition, as you are aware several provisions of the Omnibus Trade and Competitiveness Act of 1988 will require executive branch actions to be undertaken in the next few months. The U.S. business community looks forward to working with the Congress and the new Administration to ensure that the new trade law works as intended: to open foreign markets and promote U.S. economic interests.

The U.S. business community anticipates a continuation of the excellent working relationship developed with both the Congress and executive branch during the past several years. That relationship was critical in the development and passage last year of omnibus trade legislation. As a result of that

joint effort, our trading partners understand that effective trade and investment policies are a priority of the U.S. Congress, executive branch, and business community.

In view of the important issues which must be addressed in the immediate future, and in view of Carla Hills' outstanding talents and attributes, I urge her expeditious confirmation.

Thank-you very much for providing me with this opportunity to testify.

STATEMENT OF SENATOR BOB DOLE

IN SUPPORT OF THE NOMINATION OF CARLA HILLS

TO BE UNITED STATES TRADE REPRESENTATIVE

Mr. Chairman, I am pleased to support the nomination of Carla Hills for the important position of United States Trade Representative.

Mrs. Hills is well known to us. She has served in the Federal government as a distinguished Secretary of the Department of Housing and Urban Development and as the Assistant Attorney General, Civil Division in the Department of Justice. In both cases, she was only the third woman to hold such a position.

More importantly, since returning to the private practice of law, she has continued to volunteer her services in the public interest, serving on President Reagan's Blue Ribbon Commission on Defense Management and as Vice-Chairman of his Commission on Housing. In addition, her positions on the Boards of Directors of several U. S. multinational corporations have given her first hand experience with the critical issue of United States competitiveness in world markets and with the impact of Federal trade policy on the success our exporting businesses. Such broad experience is essential in anyone who is to undertake the difficult task of negotiating on behalf of our agricultural and industrial producers to ensure that they are given a fair chance.

We have just successfully confirmed Richard Darman to head the Office of Management and Budget so that he can begin immediately to reduce our budget deficit. I hope that we can act as promptly on the nomination of Carla Hills so that she can get to work on the other deficit. I believe that Mrs. Hills will make an outstanding contribution as our trade representative, and I look forward to working with her in the future.

STATEMENT BY ANTHONY HARRIGAN

Mr. Chairman:

I am Anthony Harrigan, President of the United States Business and Industrial Council, a 56-year-old business spokesman organization, representing approximately 1,500 member companies in all parts of the country. I appreciate this opportunity to testify on the nomination of Mrs. Carla Hills as U.S. Trade Representative.

Our Council is deeply concerned about this nomination because it is deeply concerned about the loss of American economic pre-eminence. This loss stems not only from foreign trade offensives but from the passivity and economic appeasement that has characterized our government's approach to trade policy in recent years. The USBIC believes that the United States is losing a trade war and cannot regain its industrial technological leadership without trade negotiators who have a record -- beyond question -- of dedication to the American national economic interest.

Therefore, we are deeply troubled by the nomination of Mrs. Carla Hills as U.S. Trade Representative. In 1985, Mrs. Hills registered with the U.S. Justice Department as a foreign agent for Daewoo Industrial Company Ltd., a Korean company that pleaded guilty to criminal charges. Most recently she was a partner in the law firm -- Weill, Gotshal and Manges -- which is a registered agent for Matsushita Electric Company of Japan. At her previous law firm, Latham, Watkins & Hills, the nominee represented foreign clients. Her husband, Roderick Hills, was a registered foreign agent for C. Itoh & Co., the Japanese trading giant that lobbied against stiff

trade sanctions against Toshiba Corporation, which sold the most sensitive submarine technology to the Soviet Union. We believe this pattern of activity should give pause to the Senate when it is called on to advise and consent to this nomination.

To the best of our knowledge, a former registered foreign agent has never been chosen to be the chief trade negotiator for the United States. We doubt that the American people, whose livelihood is involved in foreign trade negotiations, will think well of a departure from standard practice.

The Congress has been properly concerned about the "revolving door" phenomenon whereby former U.S. officials get rich by going to work for foreign interests after leaving the public payroll. We even had the scandal last year of a Commerce Department official advertising his availability as a lobbyist for the Japanese while he was engaged in trade negotiations for the United States. The Congress passed, by an overwhelming vote, legislation to stop the revolving door. Unfortunately, the legislation was vetoed. What we have in the case of Mrs. Hills is a sort of reverse revolving door -- someone who has represented foreign interests coming in to serve in the most sensitive post regarding American industry and technology, a position that affects the employment security of American workers.

We recognize that the nominee is capable, experienced in government, and a proven administrator. But if she is confirmed by the Senate, the public surely will continue to ask questions. The perception will exist that her previous service as a registered

foreign agent will affect her decision-making. And what about the nominee's role after leaving government service? Will Mrs. Hills pledge that she won't represent foreign clients after she leaves the Trade Representative's post, if she is confirmed? The American people are entitled to that -- at the very least.

Foreign lobbying is a scandal in this country, though largely unreported. A member of Congress reports that 113 firms in Washington represent Japanese interests alone. A member of Congress reports that they spend upwards of $100 million a year on lobbying. They are putting money into foundations and economic think tanks to get favorable academic coverage. They are using American talents and reputations. Former U.S. Ambassador to Japan, Thomas Ingersoll, heads the Matsushita Foundation. Former Cabinet member Eliot Richardson is Chairman of the Hitachi Foundation. The lobbying comes at a time when, according to The Wall Street Journal, "72 percent of Americans consider the nation's trade imbalance a serious national security problem...they perceive the U.S. as slipping badly."

This foreign lobbying is aimed at weakening America's resolve to resist targeting and other efforts to penetrate and dominate the domestic U.S. market. The modest efforts that have been made in recent years to ensure even a "level playing field" for American industries often have been frustrated by foreign lobbying campaigns, which have employed former officials who occupied high posts of responsibility under the U.S. government -- even a former National Security Council Adviser. In the case of Toshiba, the lobbying was even more pernicious because the action of that foreign company will

cost American taxpayers billions of dollars to repair the damage the company did to the U.S. anti-submarine warfare capability. Those who lent their talents to the massive Toshiba lobbying drive were, in the Council's judgment, striking a blow at the financial security of the American people as well as national security viewed in military terms. At the time the Toshiba affair broke, there was almost unanimous agreement in Congress that the parent company should be severely penalized.

However, foreign lobbying is facilitated these days by the establishment here of so-called foreign "transplant" factories and subsidiaries that pretend to be American in character. These actions point up the growing foreign role in shaping American law and public policy. Anyone who is sensitive to the ethics in government issue has to be profoundly concerned by the activities of foreign lobbyists. The integrity of law-making and policy-making is compromised by foreign influence. And as foreign investment in the United States continues to build, the foreign influence also will widen in government. This is what erosion of sovereignty means -- growing control from without.

Dr. Benjamin Friedman of Harvard University, author of the new book "The Day of Reckoning," has described what this truly means. He has cited massive foreign purchases of American commercial real estate -- from Washington to Los Angeles, but pointed out that these are not as significant as purchases of other assets, such as manufacturing plants, farms, and ranches. Even so, Americans are on their way to becoming tenants of foreign landlords. The Los Angeles Times recently reported that Japanese interests have poured $8.96

billion into U.S. real estate in the first eight months of 1988. Dr. Friedman reports that foreigners have also increasingly moved not just to invest in Wall Street but to own firms that run it. He says that American firms are "selling pieces of themselves as an attractive source of new cash." He cites Nippon Life Insurance Company's purchase of 13 percent of Shearson Lehman Brothers in 1986, the 1987 purchase by Sumitomo Bank of an interest in Goldman Sachs, and Yasuda Muutual Life Insurance's acquisition of one-fourth interest in Paine Webber. He adds that the largest transactions are well-known but that hundreds of other purchases "remain largely invisible."

Some Americans believe that foreign investments here are good for the economy. Dr. Friedman explains, however, that "Selling off our real assets will simply keep the party going longer, and so the inevitable adjustment will be easier to swallow." But this means, he concludes, that we are mortgaging our future. Not only will there be an inevitable reduction in the American standard of living, but there will be a severe loss of control over our national economy. This indeed is the most ominous threat.

The cost of handing over ownership of American assets will be high in terms of national pride and, more importantly, economic independence. The U.S. public has yet to understand this. Investment bankers are delighted with the fees that result from foreign takeovers. State officials like to cite infusions of foreign money as progress. However, when foreign interests begin to collide with U.S. national interests, as is inevitable, there will be a harsh awakening.

Foreign economic control of American assets has to be described as a form of colonialism. In the long run, no country wants its economic destiny to be shaped abroad by people with different national interests. As foreign interests acquire a larger stake in the U.S. economy, they will gain tremendous political clout. A more fully developed pattern of foreign investment here -- more fully developed economic colonialism -- will spell an end to government by "we the people."

The public is not yet aware of the extent to which foreigners are buying into America. Congress has yet to come to grips with the issue. And foreign lobbyists have bitterly resisted attempts to require disclosure of foreign ownership of assets in the United States.

The pace of foreign acquisitions has stepped up sharply. An indicator of how things have changed is the fact that Japan will soon have more manufacturing capacity for automobiles in the U.S. than will American firms. But no one knows how much -- or how little -- American content there is in the cars these foreign-owned plants will produce. They will use American blue-collar labor, but the decisions will be made by foreign managers, whose numbers are increasing along with foreign technicians and professionals.

Former Commerce Secretary Peter O. Peterson has said that Americans ought to be shocked by the fact that "a population half the size of our own, living on a group of islands the size of California, is adding more each year to its stock of factories, houses, bridges and laboratories -- in absolute terms -- than we are

to ours." And, Japan still has $80 billion in savings left over. This enables the Japanese to buy American electronic firms, commercial real estate, wineries, tire plants, and other assets on a mammoth scale, thereby bringing more of the American economy under Japanese control and direction. Japan is also building its own assembly plants in the United States to serve as beachheads for the increased importing of manufactured goods to compete directly with American firms. There is still plenty of Japanese money left to fund public relations and lobbying activities in the United States aimed at preventing any political moves that would stop or even slow this process.

Japan believes in building a global economic network headquartered in Tokyo. This reflects their core values of order and hierarchy and their attitude of social Darwinism that long predates Darwin.

The only way to get the facts about foreign ownership in the United States and its plans for the American economy is for the appropriate Congressional committees to hold public hearings on these subjects and take testimony under oath. The new Congress should undertake this task.

All this has relevance in connection with foreign lobbying, whether for Japan, South Korea, Hong Kong, or European countries.

Therefore, we hold that it should be a fundamental rule that the U.S. Trade Representative, the Undersecretary of State for Economic Affairs, the assistant secretary for import administration

at Commerce, and all other officials who work in the trade area should not have served foreign interests. There are plenty of highly qualified people available to the Executive Branch who have only served U.S. interests. One can be sure that the Japanese and South Korean governments would not select trade negotiators who have worked for American interests. Only the United States fails to assert its national interest in trade negotiations in the most determined way. It's imperative that the U.S. have a chief trade negotiator who is publicly recognized as being 100 percent committed to the U.S. national interest.

Therefore, we hope that this Committee and the full Senate will resist any temptation to be accommodating to a new administration and will heed the concerns of those Americans who believe it would be unwise to confirm a nominee for the U.S. Trade Representative's post who has represented foreign interests.

Thank you.

STATEMENT OF

CARLA ANDERSON HILLS

UNITED STATES TRADE REPRESENTATIVE-DESIGNATE

BEFORE THE

SENATE COMMITTEE ON FINANCE

JANUARY 27, 1989

Introduction

Mr. Chairman and Members of the Committee, I am honored to appear before you today as President Bush's nominee to be United States Trade Representative.

I am equally honored to have the opportunity to succeed Clayton Yeutter, who has done so outstanding a job as U.S.T.R. and whose accomplishments speak for themselves. I know that he benefited from having his predecessor, Senator Brock, remain in the Cabinet, and I am certain I will benefit from having Ambassador Yeutter still at the Cabinet table in his new role as Secretary of Agriculture.

Before answering your questions, I should like briefly to address four important issues: the relationship between the U.S.T.R. and the Congress, the macroeconomic background to trade, our trade agenda, and my personal commitment to the highest ethical standards.

Relationship with the Congress

As a lawyer, I know that trade falls precisely at the crossroads of the Congress' Constitutional power to regulate foreign commerce, and the President's Constitutional power to

conduct the foreign affairs of the United States. To develop and implement an effective trade policy, then, the President and the Congress must be partners. We must work together to increase stability and economic growth in the United States and the community of nations.

If confirmed as U.S. Trade Representative, I shall do everything that I can to sustain and enhance this partnership. I do understand and I do appreciate the special relationship between U.S.T.R. and this Committee and the Ways and Means Committee of the House of Representatives. I will, of course, be making appearances at hearings. In addition, I would like, with your agreement, to meet regularly on an informal basis with each committee. The agenda would be straightforward: to inform, and to be informed. I would welcome your support when I earn it, and respond promptly to your criticism--even if I believe I have not earned it.

We will not always agree. Even the closest and most reasonable of partners disagree from time to time. However, if you believe that such meetings can be constructive, they would ensure that we could share meaningfully in the development of trade policy. A real and sustained effort of this kind will benefit:

- the Executive Branch, by generating Congressional support for the Administration's trade policy;

- the Congress, by ensuring more meaningful participation in, and in accepting more responsibility for, the formulation and implementation of that policy; and

- above all, the American producers and consumers who are entitled to the best we can provide.

Mr. Chairman, Members of the Committee, you may well complain in the future that I am taking too much of your time. Nevertheless, it is my firm intention to ensure that this Committee will not have cause to complain that we gave you too little of our time.

We will also, of course, work closely with the private sector. The office of the U.S.T.R. has long had an extensive system of private sector advisory committees, which Ambassador Yeutter revitalized. I intend to rely even more on these committees.

Macroeconomic Background

To reduce 1988's estimated $135 billion trade deficit, the United States must save more and consume less relative to its output. In 1987, for example, U.S. gross domestic savings were about $560 billion, while investments totaled $713 billion; the yawning gap was bridged by borrowings from abroad. The mirror image of these borrowings has been our trade deficit, which supplies the dollars foreigners purchase in foreign exchange markets to lend or invest in the United States.

To close the savings/investment gap, we should concentrate on boosting savings and lowering federal spending. In turn, our major trading partners must adopt complementary policies, saving less, and relying more on domestic demand, rather than foreign demand, to stimulate their growth.

Our Trade Agenda

It is against this macroeconomic backdrop that the nation's trade policy is implemented. Our strategic goal is to open markets, not close them; to create an ever-expanding multilateral trading system based upon equitable and enforceable rules. As a global power, we prefer to use multilateral negotiations to achieve this end. But we will also engage in bilateral efforts, and take selective unilateral actions, where they can be effective in opening foreign markets to U.S. goods and services.

By March 1, with the advice and assistance of the Congress and the private sector, we will submit the first national trade policy agenda, as required by the Omnibus Trade and Competitiveness Act of 1988. That document and the 1988 Act will guide our priorities and objectives for 1989, and will serve as the basis for our progress report to you in 1990.

Quite candidly, Mr. Chairman, we face a number of very tough challenges on our trade agenda. We must:

- Successfully conclude the Uruguay Round of multilateral trade negotiations;

- Protect U.S. interests as Europe moves toward integration in 1992;

- Effectively implement our free trade agreements with Canada and Israel; and

- Substantially increase U.S. access to Japan and other markets.

In the 1988 Act, you recognized these challenges and gave us new tools to meet them. Thus, I should like to take a moment to expand briefly on each of these challenges.

On the multilateral front, we face in April the continuation of the Midterm Review in the Uruguay Round, which we intend to conclude by 1990. You all know the importance of this endeavor. Among other things, we aim to expand the frontiers of the GATT to include trade in services, adequate and effective protection of intellectual property rights, and trade-related investment measures. We also intend to establish a satisfactory discipline in agricultural trade encompassing the difficult issue of subsidies, and to ensure the effective and timely resolution of disputes.

You have been the President's partners in this major multilateral effort. Congress provided ample legal authority for the negotiations in last year's Omnibus Trade Act, it established overall objectives, and many of you participated in the Montreal Midterm Review. With your help, and subject to your final approval through the passage of implementing legislation, we will use these negotiations to strengthen the international trading system, which will be to the immense advantage of the United States and all its trading partners.

On the bilateral front, as I mentioned earlier, we must vigorously implement our free trade agreements with Canada and Israel. It will be the U.S.T.R.'s responsibility to

resolve disputes that may arise under these agreements and to seek appropriate expansions. In the case of the Canadian agreement, such expansions include automotive rules of origin and the use of subsidies.

We need to monitor other nations' undertakings, such as the European Community's 1992 internal integration project. The creation of a single market of 320 million people should present a substantial opportunity to U.S. exporters and investors. We must be vigilant, however, to ensure that the process of lowering barriers within Europe does not lead to the erection of new barriers to those outside Europe.

We also must continue to work bilaterally with a variety of countries to open markets to U.S. exports and enhance the protection of intellectual property rights. Japan obviously remains a major focus of concern. Despite the fact that many of the more overt, sector-specific trade barriers have been lowered, our bilateral trade deficit remains at over $50 billion. There, as elsewhere, we face the challenge of achieving results by lowering hidden barriers to U.S. goods and services. I intend this results-oriented approach to be a basic component of our overall trade strategy.

Finally, on the unilateral front, I will not hesitate to act when necessary and appropriate to fight unfair trade practices of foreign governments. Retaliation cannot be the goal of our policy; in fact, it signals the failure of our efforts to open foreign markets. But the credible threat of retaliation provides essential leverage in our market-opening efforts. Thus, actual retaliation will be used, albeit reluctantly, to preserve the credibility of this threat.

In all these endeavors, we will, of course, faithfully implement United States law, including the Omnibus Trade Act of 1988, which affects each area I have discussed. The Act provides negotiating authority for multilateral trade agreements, it expressly authorizes the settlement by agreement of bilateral trade disputes, and it calls for self-initiated unilateral action regarding special sectors and "Super 301" priorities. If confirmed, I will welcome your oversight of and contributions to all U.S.T.R. activities.

Commitment to the Highest Ethical Standards

Mr. Chairman, as you know, there has been some comment in the press concerning certain potential conflicts of interest that I am purported to have. In response to the questions posed by this Committee, I have set forth with care my past professional and business activities and those of my husband. You will see in my written submission that, after extensive consultations with this Committee, the White House Counsel, the Office of Government Ethics, and U.S.T.R.'s General Counsel, I have acted to eliminate all actual or apparent conflicts of interest.

Specifically, I have terminated all of my prior business and professional affiliations and have committed to sell all investments that could conceivably present a conflict with the responsibilities of the U.S.T.R. I have also constructed a procedure approved by the Office of Government Ethics under

which I will recuse myself from any matter where my participation could present even an appearance of a conflict.

Similarly, my husband has committed to terminate all of his business relationships and investments that could present a conflict with the office of the U.S.T.R. In addition, he has taken the unusual step of pledging that he will keep the General Counsel of U.S.T.R. informed of his existing and planned business activities, and further that he will not undertake any activity that is thought by the General Counsel of U.S.T.R., in consultation with the Office of Government Ethics, to be in conflict with the responsibilities of the U.S.T.R.

I suggest to you, Mr. Chairman, and to the Members of this Committee, that the written materials that I have previously submitted to this Committee make it abundantly clear that no conflict exists. Earlier this week, the President reiterated his commitment to the highest possible ethical standards in his Administration. I wholly endorse, and have taken concrete action in support of, that public commitment.

Conclusion

Some have argued that the world economy now stands poised between integration and disintegration. If that is so, we must do everything we can to tip the balance in favor of integration. Trade barriers--visible and invisible--must be lowered and markets opened.

The stakes are high and transcend partisan and sectoral interests. As John Kennedy, a Democratic President, said in appointing Christian Herter, a former Republican Secretary of State, the first Special Trade Representative in 1962, the work of the U.S.T.R.:

> "goes to the very heart of the many policies and programs, domestic and foreign, which will help to shape the world environment in which the United States must maintain initiative, command respect, and provide leadership."

That's a tall order, but with the cooperation of this Committee and the Congress, we can fill it.

QUESTIONS FROM SENATOR BENTSEN

Q:

As you know, there was a great deal of attention given in the 1988 Omnibus Trade and Competitiveness Act to the improvement and strengthening of Section 301 procedures. Recent actions in one 301 case involving EEC canned fruit subsidies have given me reason to question whether the full force of that statutory authority is being used.

I am advised that some seven months ago hard data was obtained showing EEC noncompliance with the 1985 US/EEC Canned Fruit Section 301 Agreement. Talks were subsequently held with the EEC and, rather than showing any degree of responsiveness to U.S. concerns, EEC officials used the occasion to try to renegotiate the terms of the agreement.

Only recently, faced with a decision on whether or not the United States should announce retaliation against Europe for its noncompliance, the U.S. subcabinet trade committee determined to delay that announcement, notwithstanding what I'm told was unanimous agreement that noncompliance had been shown.

The years of work that went into amending and strengthening the Section 301 provisions will be worth little if the authority provided is not used to its fullest force and effect. Nowhere is that authority more critical than in the enforcement stages of these proceedings. The whole process will become meaningless if our government becomes complacent about infractions. I'd like to know your thoughts on this concern particularly in the context of the canned fruit dispute.

A:

I fully share your concern about the EC's violation of this agreement. Continued EC noncompliance with the terms of this agreement has implications, not only for the economic health of the U.S. canned fruit industry, but for our ability to resolve future trade disputes with the European Community. You can be certain that we will pursue this issue vigorously.

The Administration is coordinating closely with the U.S. industry on this issue. A great deal of effort has been devoted to seeking a resolution of this problem. U.S. officials held several rounds of consultations with EC officials last fall. I intend to raise this issue personally with Commissioner Andriessen when I meet with him. We are prepared to take unilateral action if the EC does not agree to resolve this problem soon.

QUESTIONS FROM SENATOR BENTSEN
(ON BEHALF OF CONGRESSMAN NORMAN SISISKY)

Q:

How are you planning to work with the established ISAC for Small and Minority Business in the formulation of trade policy and negotiating positions? ISAC means Industry Sector Advisory Committees. There are currently ISACs for seventeen industry specialties, including one for Small and Minority Business.

A:

In conjunction with the Department of Commerce, the USTR has recruited articulate owners and executives of small businesses who are active in export markets to be members of ISAC 14 (Industry Sector Advisory Committee for Small and Minority Business). These ISAC members meet every three or four months to give U.S. trade officials advice. The USTR has a staff person designated as the USTR liaison to the ISAC and who attends every ISAC meeting and works with the members to assist them in developing their advisory position.

The USTR has prepared, in coordination with the Department of Commerce, an extensive program of briefings on trade issues to be negotiated in the Uruguay Round of trade negotiations. These briefings provide a solid basis for the members of ISAC 14 to set up a work program on Uruguay Round issues. As negotiations continue, the ISAC members will receive further briefings on the progress of the talks and be able to update their advice to the negotiators.

In addition, the USTR and the Department of commerce will be organizing a two-day meeting for ISAC chairmen in Geneva in the near future for on-site exposure to the negotiating process.

Q:

What are your plans to insure that small businesses have a greater role in the trade policy process? For example, one suggested recommendation is to appoint someone from the small business community as an Assistant U.S. Trade Representative for Small Business.

A:

First, I plan to draw upon the distinguished small business representatives who serve on our advisory committees. Most sectoral advisory committees have small business members. In addition, the USTR has an Assistant USTR (AUSTR) for Industry who deals with trade policy issues affecting U.S. industrial firms of all sizes. The AUSTR for Industry has in turn designated a staff person who is responsible for consulting with small business representatives to get an early warning about small business trade issues that are about to surface and to coordinate trade policy solutions with other agencies.

When a firm is adversely affected by a trade issue, usually all firms in that industry, large and small, are affected. The solution often requires the involvement of several USTR staff persons with different specialties such as economics of the industry, bilateral negotiating skills, GATT rights expertise, or knowledge of U.S. trade law. Accordingly what is needed is not a second AUSTR for Industry, but a person who can assist the existing AUSTR by bringing into focus trade policy issues affecting small business and by drawing upon the special resources within USTR and other Executive Branch agencies to resolve the issue of concern.

At the same time, there are agencies, such as the Small Business Administration and the Department of Commerce, that have major missions that benefit small business in specific ways. Commerce, for example, provides special export assistance. The Small Business Administration has a new Office of International Affairs that has been very active in its outreach effort to help small firms with trade concerns. We will work closely with these agencies to ensure that small businesses are both aware of, and benefit from, our trade policy initiatives.

QUESTION FROM SENATOR DANFORTH

Q:

It is always exciting to be able to announce the successful conclusion of a trade agreement, and The Omnibus Trade and Competitiveness Act gives the Administration authority to negotiate new agreements in several areas. But agreements are worthless if we fail to enforce our rights under them. Let me cite a few current examples where this is an issue:

-- Considerable emphasis has been placed on negotiating agreements for intellectual property rights protection. Yet I am told that Korea still isn't meeting its commitments on market access and copyright protection for motion pictures.

-- In December 1987, the American Soybean Association filed a Section 301 petition against the EC's internal oilseed and protein crop subsidies, which reportedly have cost US farmers and processors $1.4 billion annually in lost sales to the EC. The case was initiated in early 1988 but the Europeans have completely stonewalled on GATT action.

-- US banks do not enjoy national treatment in Taiwan, thereby hampering their ability to provide retail banking services in a burgeoning market. The US government has indicated that this is unacceptable, and Taiwan has promised to address the problem in the context of reforming its banking law. Yet I understand that the proposed revisions do not appear to address the industry's major concerns about branch restrictions and deposit ceilings.

-- Argentina levies a higher tax on soybean exports than on soybean oil and meal exports, effectively subsidizing the sale of its soybean meal and oil in world markets and conferring an advantage to the its crushing industry. A Section 301 investigation of this practice was suspended in 1987 following Argentina's promise to address this problem. Despite repeated commitments to eliminate or phase out the practice by a time certain, however, I understand that this issue is unresolved.

In each of these cases, we must hold our trading partners' feet to the fire to ensure that commitments are fulfilled. Do you intend to be as aggressive in enforcing our rights as in negotiating agreements? How will you accomplish this in each of these cases?

A:

Yes. I intend to closely monitor our trading partners' compliance with the terms of agreements which we have negotiated and we will enforce our rights under these agreements in instances where our trading partners are not in full compliance.

With regard to the examples you have cited, we intend to enforce our rights in the following manner:

KOREA

We have made several representations to the Korean government about the need to rigorously enforce its fair trade laws to protect the rights of foreign distributors of motion pictures. For the moment, we appear to be in a test of wills with elements of Korea's distribution industry, which we intend to win. It appears that the Korean government will take its commitments seriously. In late January the "Fair Trade Office" of Korea's Economic Planning Board ruled in favor of the American Motion Pictures industry and ordered the Korean Motion Pictures Producers Association (KMPPA) to stop its intimidation activities. However, we have heard reports that KMPPA is planning further boycott activities. The U.S. industry, with our assistance, will insist that the Fair Trade Office ruling against KMPPA be enforced. We will continue to actively monitor the enforcement of this agreement and ensure that the Korean government is doing everything it can to protect our rights under the agreement.

EC - SOYBEANS

It is my intention to pursue this case vigorously. The European Community will be informed of the requirements of U.S. law, including the time limits imposed on Section 301 cases by the 1988 Act. The EC's delaying tactics will ultimately be more harm than help to them. I sincerely hope that they now realize that this case is best handled by allowing the GATT dispute settlement process to operate in a reasonable time frame. I will, of course, take whatever actions are required to defend U.S. interests, both in negotiating any resolution to this case and in assuring subsequent implementation.

TAIWAN

At the most recent round of discussions with Taiwan on financial services, held in August 1988, the Taiwan side indicated that the banking law would be revised to allow foreign banks three new items of savings business. This would bring the total of permitted items to 14 of 15 allowed to domestic banks. The sole remaining item not permitted to foreign banks is the issuance of "banking bonds" (i.e., long-term debentures, not including certificates of deposit). The revised banking law also will allow foreign banks four new items of trust business, thereby allowing foreign banks to engage in all the activities permitted to domestic banks. We have monitored the drafting of the revisions to the banking law closely, and are pleased to see that these changes have been incorporated.

During the discussions last August, the U.S. side pressed Taiwan to relax the existing entry restrictions for foreign banks. The Taiwan side indicated that foreign banks will be permitted to enter into joint ventures under the revised banking law. However, they were not willing to consider setting a timetable for permitted the establishment of additional branch offices. They also were not willing to raise existing ceilings on foreign banks' deposits, despite pressure from the U.S. side. We intend to pursue these, and other outstanding issues, at the next round of consultations which we hope to schedule in the near future.

ARGENTINA - SOYBEANS

I intend to continue to pursue this issue with Argentina. Based on bilateral discussions in December 1988, I understand Argentina is currently working on a new scheme to replace the tributary tax rebate program that was the cause of recent concerns. I will continue to urge Argentina to lessen and eventually eliminate its differential export taxes on soybeans and soybean products.

QUESTIONS FROM SENATOR DOLE

Q:

Would you please tell the Committee what steps will be taken to ensure that U.S. agricultural interests are not prejudiced by actions of the European Community with respect to their further integration scheduled to occur in 1992.

A:

Through the interagency task force established to monitor and react to developments arising out of the EC's internal market completion program, USTR is working closely with the Department of Agriculture and other relevant agencies in an effort to ensure that U.S. agricultural interests are not prejudiced by EC actions related to the further integration of the Community.

As a practical matter, the establishment of the Common Agricultural Policy (CAP) more than three decades ago essentially created a single EC market for farm products. Therefore, the current internal market exercise has little to do with the essential aspects of the EC's CAP. However, it does include efforts to establish Community-wide phytosanitary and animal health standards. While mutual recognition of phytosanitary and animal health standards among EC member states is a primary goal of this exercise, it is difficult to predict exactly how third country products will be treated. In fact, two internal directives which have already been promulgated -- the "Hormone Directive" and the "Third Country Red Meat Directive" -- have been major points of dispute between the United States and the EC.

Our position is, and will remain, that all veterinary and phytosanitary directives must be based on scientific fact and that those which are not based on science have the potential to become unnecessary barriers to trade. The promulgation of standards and processes and production methods which do not have a scientific basis must not be allowed.

In our discussions with the Community we will continue to argue that prejudice to our interests (and eventual disputes) can be avoided by incorporating provisions into relevant directives which recognize and accept as equivalent U.S. production and marketing processes.

Clearly, where the Community is unwilling to accomodate our concerns and where measures designed to foster the integration of the internal EC market prejudice our interests, we will remain prepared to defend our interests.

Q:

As you know, many members of this Committee devoted a considerable amount of time drafting a comprehensive approach to unfair trade barriers abroad which was enacted in the trade bill as the so-called "Super 301" provision.

How will you act to prevent retaliation against U.S. agriculture on account of any sanctions imposed under Super 301?

A:

We have to face the possibility that sanctions imposed under Super 301 or any other 301 action could result in counter-retaliation by our trading partners. However, if our fear of counter-retaliation causes us not to consider such sanctions in the first place, then Section 301 is not a credible threat. As I have testified, in enforcing agreements with our trading partners, I will not hesitate to take unilateral action when necessary. It is not our goal to retaliate, but maintaining a credible threat is essential.

Q:

How do you expect to deal with the European Community's agricultural export program in the Uruguay Round negotiations and how will that affect U.S. programs.

A:

The Reagan Administration proposed the elimination of all trade distorting subsidies and access barriers in agriculture in the Uruguay Round. President Bush has endorsed this position. This is not to say that we seek the abolition of all subsidies to agriculture -- only those that are trade distorting. We have defined decoupled income payments, for example, as being non-trade distorting.

We hope to convince the Europeans that it is possible and desireable to substantially lower levels of support and switch to income protection type programs. That would eliminate the need for import access barriers and export subsidies. If we are successful, and the agreement is approved by Congress, we will have to adapt our programs to the new rules. If the transition is long enough, we expect adjustment problems to be minimized.

We're convinced that U.S. farmers are among the most competitive in the world and that a freer international trading system for farm products will significantly benefit U.S. agriculture.

Q:

How will you work with the Department of Agriculture in formulating U.S. agricultural trade policy?

A:

It has been USTR's tradition to work with USDA in developing the background, options and policy positions on issues involving U.S. trade and agricultural interests. I expect to have an especially good working relationship with Clayton Yeutter who understands both agriculture policy and trade policy.

Q:

Can you give the Committee any indication of the Administration's thinking on the Caribbean Basin Initiative. As you know, some of us have had concerns that this program might be misused in some areas (ethanol) and we hope you will keep that in mind.

A:

In general, the Administration supports enhancing the Caribbean Basin Initiative (CBI) through legislation that would extend the program beyond its expiration on September 30, 1995, offer the Caribbean Basin greater security of access for its exports to the U.S. market, and expand the CBI's product coverage into areas now statutorily excluded. We think the program has contributed in important ways to economic development in the region, but we believe that it could accomplish even more if appropriately enhanced at this stage.

With respect to ethanol in particular, we support rules of origin for this product under the CBI that guard against pass-through operations while enabling the development of economically viable local ethanol production. The reports on ethanol from the U.S. International Trade Commission and the General Accounting Office, mandated by the Omnibus Trade and Competitiveness Act of 1988, should provide us with the information necessary to evaluate whether current rules of origin warrant revision. I will examine the reports closely as soon as they are available. I know you will too, and will welcome your views.

Q:

The President's authority to implement the current steel voluntary restraint program expires in September. Would you give us your views on the Administration's approach to how the program will be extended as has been suggested by the President?

A:

I share the President's concern about the adverse impact of unfair trade practices on the U.S. steel industry. I believe the focus of this Administration's steel trade policy should be to achieve an international consensus on eliminating unfair trade practices. Until such a consensus is in place, the U.S. steel industry will remain vulnerable to unfair trade practices.

The Administration will be initiating a review of the current system of voluntary restraint arrangements. That review will concentrate on assessing how effective the current program has been in eliminating unfair trade practices, in facilitating structural adjustment and modernization of the steel industry, in meeting the supply requirements of consuming industries, and in opening markets abroad. These factors need to be given careful attention before the Administration decides on its approach to VRAs.

As this review progresses, I intend to consult with the Congress and the industry to assure a broad-based consensus on an effective steel trade program.

Q:

I understand that an application has been made for the launching of U.S. satellites from Soviet launch vehicles. Do you have a position on this?

A:

Any application for an export license to launch a U.S. satellite from a Soviet launch vehicle would be subject to the Arms Export Control Act and the International Traffic in Arms Regulations, which are administered by the Department of State. However, this matter was discussed when President Reagan decided in September 1988 to approve, subject to certain conditions including the successful negotiation of a trade agreement, export licenses for the launch of several U.S. satellites from Chinese launch vehicles. At that time, the Reagan Administration decided that similar export licenses should not be issued for the launch of U.S. satellites on Soviet launch vehicles. I know of no reason why that decision should be changed.

Q:

Do you believe that the current structure of U.S. trade policy-making makes sense?

A:

There have always been, and probably always will be, divergent views on how best to organize the Executive Branch to most effectively formulate and implement trade policy.

I am open-minded on the subject of whether there may be a structure superior to the current organization. However, I believe that even if this were the case, now is not the time to devote scarce resources to this task. Given the many more pressing challenges that confront the President and USTR on all fronts -- in the ongoing Uruguay Round of multilateral trade negotiations, all over the globe in plurilateral and bilateral talks, and at our own borders, in the context of implementation of our newly amended trade laws -- I think we should concentrate for a while on opening markets abroad, rather than redrawing organization charts.

No doubt at some later date we may want to reconsider organizational issues. But to do so at this critical juncture, with so many key trade policy issues before us, would detract from our main mission of opening foreign markets and facilitating American competitiveness.

Q:

As you know, the trade bill required intensive analysis, reports, and negotiations with respect to protection of U.S. intellectual property rights and trade in telecommunications products. What is the status of these efforts?

A:

Section 1303 of the Omnibus Trade and Competitiveness Act of 1988 -- the so-called "special" 301 on intellectual property -- requires the U.S. Trade Representative to announce a list of priority countries by May 30, and to self-initiate 301 cases against them by June 30.

Since December, an interagency team chaired by USTR staff has been analyzing the laws and practices of our trading partners to determine whether they fall within the provisions of the new law: 1) whether the country provides adequate and effective protection of intellectual property rights; or, 2) whether it denies fair and equitable market access to United States persons relying on intellectual property rights. Based on this information, we will hold informal consultations with selected trading partners that are likely to fall within the statute's criteria. The purpose of these consultations is to enable these countries to take positive steps towards improving their intellectual property laws and practices before final decisions are made.

Before making final decisions we will also seek advice and information from other sources. In February we expect advice from official private sector advisory groups and responses to a Federal Register notice published in mid-January. In late April we will have available the National Trade Estimate Report.

Based on all of this information, and after consultations with other trade agencies, I will announce my decision in late May.

It is premature to speculate on which countries will be the subject of special 301 cases. But I can assure you that none of our trading partners has been excluded from consideration.

On January 19, USTR completed investigations of important trading partners' telecommunications trade and investment practices and identified "priority foreign countries" with which the President will initiate negotiations. As required by law, the investigations and country identification processes were done in close consultation with private sector groups, including labor and industry advisors, and with appropriate committees of Congress, including the Finance Committee.

QUESTIONS FROM SENATOR HEINZ

Q:

I understand that a number of countries are targeting U.S. textile and apparel tariffs to obtain big reductions during the Uruguay Round. I would like to know whether you plan to cut these tariffs. I urge you to consider the import sensitivity of U.S. textiles and apparel when you evaluate foreign countries' requests that we cut these tariffs. At the conclusion of the Tokyo Round of trade negotiations in 1979, imports had about 25 percent of our apparel and apparel fabric market. Today that number has risen to 55 percent. Since 1979, more than 350,000 jobs have been lost in this industry and imports have tripled. I believe that this industry has been hit hard enough and do not believe that any significant tariff cuts should be made on textiles and apparel as part of the Uruguay Round. I'd like your views on this.

A:

We recognize the import sensitivity of a number of textile and apparel products. It is this recognition that has led the Administration to negotiate 40 bilateral textile and apparel agreements containing nearly 2,000 specific import restraints.

In the Uruguay Round tariff negotiations, we have pursued a "request-offer" procedure, in part because such a procedure would allow us to consider each case separately, rather than be faced with large reductions in tariffs across all products and sectors.

Since U.S. tariffs on textile and apparel products are generally much higher than those for other manufactured goods, we can expect to receive requests from foreign governments for reductions. We intend to consult fully with Members of Congress and the private sector as we consider each request.

We will also seek the advice of the U.S. International Trade Commission in analyzing the likely economic effects of tariff reductions on requested items.

Q:

Your office will have to renegotiate some 15 bilateral textile and apparel agreements during 1989 including those with such major exporters as Korea, Japan and Taiwan. Do you plan to tighten up these agreements?

Over the past few years, the domestic textile and apparel industry has been hard hit by imports. Today production is down from a year ago, employment is off by some 15,000 workers and in the apparel sector, employment is at its lowest level since World War II. Most of the expiring agreements will permit imports to flood our market because exporting countries have not fully utilized their quotas this year. The result of this rapid import surge could be devastating. Are you planning to address this issue when these agreements are renegotiated?

A:

Renegotiation of expiring textile agreements with major suppliers, which control a combined total of 3.5 billion square yards of textile/apparel imports per year at a value of about $7 billion, will be one of our top challenges this year. The highest priorities will be the agreements with Korea and Taiwan, which combined cover about three-fourths of total trade in expiring agreements.

In considering all 15 agreements, we will be exercising our full rights under the Multifiber Arrangement to prevent disruption of the U.S. market and to ensure orderly development of trade. Each agreement must be considered within the context of current and anticipated trade patterns, and there may be cases where the most appropriate course of action is to allow the agreements to expire.

This is not the case with Korea and Taiwan, despite the fact that rising wage rates and currency appreciations in these two countries have caused a large decline in textile/apparel exports to the United States during the past year.

In negotiations with Korea and Taiwan, we will pursue comprehensive agreements with growth rates on quotas below the 6 percent outlined in the MFA. We will also seek downward adjustments in consistently under-utilized quotas, in line with our rights under article 11 of the 1986 MFA Protocol of Extension.

Q:

As you know, the steel VRA program will expire this year. President Bush has indicated his support for an extension of the program pending an international consensus on eliminating unfair trade practices which are rampant in steel trade. In your role as advisor to the President on trade policy, will you advocate an extension of the VRA program to those countries not now covered, but found to be shipping significant quantities of dumped or subsidized steel to the U.S. market?

A:

I share the President's concern about the adverse impact of unfair trade practices on the U.S. steel industry. I believe the focus of this Administration's steel trade policy should be to achieve an international consensus on eliminating unfair trade practices. Until such a consensus is in place, the U.S. steel industry will remain vulnerable to unfair trade practices.

The Administration will be initiating a review of the current system of voluntary restraint arrangements. A key element in that review will be the effectiveness of the current program in addressing unfair trade practices. That review also will concentrate on assessing how effective the current program has been in facilitating structural adjustment and modernization of the steel industry, in meeting the supply requirements of consuming industries, and in opening markets abroad. All these factors need to be given careful attention before the Administration decides on its approach to VRAs.

As this review progresses, I intend to consult with the Congress and the industry to assure a broad-based consensus on an effective steel trade program.

Q:

How do you view the relationship between U.S. trade policy and U.S. foreign policy? Do you believe that we can achieve our trade policy goals without conflict with our defense and foreign policy goals?

A:

I understand the central message of the Omnibus Trade and Competitiveness Act of 1988: trade shalt not be a handmaiden unto national security or foreign policy interests.

As an optimist, I hope we can achieve our trade policy objectives without conflicting with other fundamental U.S. interests. As a realist, however, I expect such conflicts to occur from time to time. In those circumstances, it will be my job to ensure that in resolving the conflict, trade considerations are given equal weight to any competing considerations.

Q:

If a country negotiated a bilateral arrangement with the United States, after it has been found to have significant dumping duties and then began shipping very large quantities of the same steel product to a non-arrangement country for further processing before shipment to the United States, do you think that this would be an appropriate circumstance for enforcing the provision (Section 1322 -- melted and poured provision)?

A:

Section 1322, the melted and poured provision of the Trade Act, gives discretionary authority to the President to treat non-arrangement steel that was produced from raw material from a VRA country, as a product of the VRA country. Diversionary practices of shipping steel with significant dumping margins from VRA countries to non-VRA countries would be one of the issues considered when exercising discretion in the implementation of this provision.

Q:

A serious concern has been raised about escalating imports from Thailand which are being manufactured using dumped sheet from East Germany. The East Germans have a bilateral agreement with the U.S. to limit their exports of these products. Are you aware of this concern?

Will you give priority attention to this issue when you assume your duties as USTR? I would appreciate it if your office would keep the Committee informed of your progress on this issue.

A:

Increasing imports of pipe and tube from Thailand are a serious concern. Imports have risen from 67 thousand tons in 1986 to 144 thousand tons in the first 11 months of 1988, most of which has been pipe and tube. The largest supplies of plate for making pipe and tube come from Japan, accounting for almost 60 percent of Thailand's raw material supplies. East Germany is the second largest supplier, accounting for 13 percent. More than 90 percent of Thailand's supply of raw material to produce pipe and tube comes from countries with which we have negotiated VRAs.

The United States and Thailand have held discussions on this issue to explore possible ways to resolve our concerns. While those discussions have not been successful, we remain open to the possibility of further talks. However, I would note that Thai exports of pipe and tube have declined recently.

During the Administration's review of the current program, we will be examining how the VRAs address the problem of diversionary trade. In the course of this review as well as subsequent negotiations, we will be consulting with both Congress and the industry.

QUESTIONS FROM SENATOR MATSUNAGA

Q:

The U.S. sugar industry has agreed with Ambassador Yeutter's call for the complete elimination of all trade-distorting agricultural subsidies if undertaken on a multilateral basis. It is the view of the sugar industry that with a level playing field our farmers are fully capable of competing with foreign competition. I have two questions for you regarding the agricultural negotiations in the Uruguay Round.

First, has the U.S. position requiring a commitment to subsidy-free trade in agriculture as a prerequisite to progress in the agricultural negotiations changed as a result of the Montreal meeting, or do you expect it to change?

Secondly, can I get your pledge this morning that you will maintain Ambassador Yeutter's position that there will not be trade-offs between sectors in the Uruguay Round, such as intellectual property gains for sacrifices in agriculture? Also, that there will not be trade-offs between commodities in the agricultural negotiations, such as gains in market access for feed grains in exchange for giving up import restraints for sugar?

A:

We have proposed that all countries commit to the phasing out over an agreed period of time of all trade-distorting subsidies to farmers. Our proposal defines "de-coupled" income payments to farmers and legitimate domestic and international food aid programs as non-trade distorting and, therefore, subsidies that would be permitted.

All countries involved in this exercise, including the United States, will have to review the entire negotiated package at the end of the Round to determine whether the results are balanced and, therefore, politically acceptable. With particular regard to agriculture, however, I'm convinced that all countries can gain from a more liberalized agricultural trading system. Our present global agricultural production and trading system is highly distorted and extremely inefficient. We can all benefit from a system that encourages a more efficient use of global resources. The Uruguay Round, in general, and the agricultural negotiations, in particular, should not be viewed as an exercise in which if one country wins, another must lose.

With regard to trade-offs between commodities, I agree with my predecessor: we want the agricultural negotiations to be comprehensive, covering all commodities and all trade-distorting policies. Most of our trading partners agree that is a logical and fair approach.

Q:

You may be aware that in 1981 U.S. sugar producers filed a Section 301 complaint against the European Community's Common Agricultural Policy and the devastating effect it was having on sugar growers in the United States, and in other countries for that matter. After consultations with the Community under the GATT Subsidies Code, that investigation was suspended by USTR with no action being taken regarding the Community's practices. Last year, U.S. sugar producers petitioned USTR to reactivate the suspended Section 301 investigation on the grounds of the continuing unfair trade practices by the European Community in its subsidized production of sugar and dumping of its excess production on the world market. Ambassador Yeutter decided not to accept the petition solely because of ongoing negotiations on agriculture in the Uruguay Round. Mrs. Hills, can I get your pledge this morning to reconsider this petition if no progress in made in the Uruguay Round negotiations?

A:

If those negotiations are unsuccessful, I would be pleased to consider any petition the industry might wish to submit.

Q:

During the Presidential primaries, President Bush stated that he thought the present level of sugar imports was about right. Since that time the import quota has increased by more than 50 percent. Do you support the President's views regarding size of the quota and the importance of preserving a viable domestic sugar industry?

A:

The U.S. sugar import quota system is designed to be flexible enough to permit additional quantities of offshore sugar to supplement our domestically produced product when it appears that U.S. sugar supplies will be inadequate. Last summer's severe drought and the resulting drop in the U.S. beet crop led to the need for the increased imports.

I certainly recognize the need for preserving a viable U.S. sugar industry. In that regard, I welcome the industry's support for our objectives in the Uruguay Round agricultural negotiations. I'm convinced that a freer and more open global trading system for sugar will result in a stronger, more profitable U.S. industry.

Q:

In May 1988, the U.S. and Japanese governments reached an agreement which attempted to make more transparent the bidding and procurement procedures on public works projects in Japan with the goal being the establishment of market access for American construction, architectural and design firms in that market equal to that which the Japanese have been afforded here. Despite the agreement, the results thus far have been very disappointing with contracts being signed by American firms in the last year totalling less than $25 million in value. Tnat compares with the more than $2 billion of business being done annually by Japanese companies in our market. I would like to know your assessment of that agreement and what you intend to do under the ongoing Section 302 investigation if the results obtained thus far under the agreement do not improve. Do you believe that there is reciprocal market access for U.S. and Japanese firms in each other's markets?

A:

The May agreements were a first step towards improving access to the Japanese market for U.S. architectural, engineering and construction services. The agreement removed obstacles to obtaining construction licences, provided some transparency to the bidding process for 14 major projects in Japan, and committed the Japanese government to facilitating entry of foreign firms into their market.

Thus far, the award of contracts to American companies has been relatively modest. Three U.S. companies won equipment contracts valued at about $16 million. One U.S. construction company, bidding as part of a consortium, won a construction contract valued at $148 million. The U.S. company's share is reported to be about 6 percent of the contract value.

Based on the contracts awarded to date, it would be premature to conclude that there are no problems for U.S. construction firms in competing in the Japanese market. To the extent lack of experience in the Japanese market has been part of the problem for U.S. companies, we should see the contract values grow more rapidly in the upcoming year, as U.S. companies build on their experiences in the market.

As required by the Trade Act, we are conducting an investigation to determine whether there are any Japanese government barriers to the provision of U.S. architectural, engineering, and construction services in Japan. I intend to conduct a thorough investigation under the law. At this point I cannot predict the final outcome of the investigation.

On March 13 we will hold a public hearing pursuant to this investigation. Thereafter, we will consult with the Government of Japan. The determination in this case is due on or before November 20, 1989.

Q:

Last month the United States and Chinese governments concluded a negotiation to allow the export of certain U.S.-made communications satellites to China to be launched on Chinese launch vehicles. Press reports indicate that a U.S. export license will be sought in the near future to permit U.S. satellites to be launched on Soviet launch vehicles. In light of USTR's role in negotiating a "fair trade agreement" governing PRC participation in the commercial launch services market, what is your view of potential Soviet entry into this market and its possible effect on the U.S. commercial launch service industry?

A:

When the Reagan Administration decided last September to approve, subject to certain conditions including the negotiation of a trade agreement, the launching of three U.S. satellites on Chinese launch vehicles, it also reviewed the Soviet situation. The Reagan Administration decided in that review that the United States government should not permit U.S. satellites to be launched on Soviet launch vehicles. I see no reason for that policy decision to be changed.

If the Soviets were permitted to enter the Western commercial launch services market, they could do serious damage to the U.S. commercial launch services industry. They have a formidable fleet of launch vehicles that are technologically proven. Soviet presence would exacerbate current worldwide over-capacity in launch services and undoubtedly lead to harmful price depression since the Soviets would presumably be able to offer prices much lower than those currently offered by Western launch service providers.

Q:

As you implement the Super 301 provisions of the Trade Bill, has any consideration been given to the possibility of informing offending countries early enough in the process to allow for negotiations or consultations with them? A number of countries are, as you know, extremely worried just about being designated under this provision. If there is a chance that some of them could take action prior to the date of designation that would keep them off the list, wouldn't that be to our advantage?

A:

It would be to our advantage, and we will try to use the Super 301 process in a way that provides additional leverage while we are determining what our priorities should be in 1989 and 1990. I don't see Section 301 as an end itself; rather it is part of our overall strategy for keeping the pressure on our trading partners to liberalize their markets.

QUESTIONS FROM SENATOR PACKWOOD

Q:

For several years, the Office of the United States Trade Representative has negotiated with Taiwan and Korea with regard to market access problems for frozen potatoes. These negotiations have produced some success. I have a great interest in seeing further progress being made in these market opening negotiations. Since the markets in both Korea and Taiwan are particularly important, would you continue to press for lower tariffs in Taiwan and Korea, either through bilateral negotiations or the Uruguay Round?

A:

Yes. I recognize the importance of pursuing a further opening of these markets, and those of other Pacific Rim countries, to U.S. processed agricultural products, such as frozen potatoes. We will be seeking additional tariff reductions by these countries bilaterally in the short term and over the longer term in the Uruguay Round of multilateral trade negotiations.

In the case of both Korea and Taiwan, we have included frozen potatoes on our lists of "priority" items for tariff reductions which we have submitted to the Korean government and to Taiwan's authorities. Taiwan is planning to implement a package of tariff reductions later this spring, and it is our hope that these reductions will respond to our requests. In December, Korea's National Assembly passed a five year tariff reduction plan, but frozen potatoes were not affected. We will urge the Korean government to consider additional tariff reduction packages and to include the items which were submitted on our "priority" list. We also intend to pursue tariff negotiations with Korea under the Uruguay Round negotiations, and with Taiwan in parallel to the Uruguay Round.

Q:

The U.S. financial service industry, one of the most innovative in the world, has great potential to make a substantial contribution to U.S. exports around the world if we can continue to increase market access in foreign countries. As USTR, what will you do both bilaterally and multilaterally to help U.S. financial institutions expand their access to these growing markets?

A:

There are several things that can be done in the trade area that would benefit market access for the financial services industry. This includes raising problems bilaterally with individual trading partners who impose restrictions. There was success in this area with Korea and Taiwan. Section 301 and other new Trade Act provisions extend to services, including financial services. The current Uruguay Round negotiations on services may provide the opportunity to extend specific rules to financial services, either through rules applied to all sectors or in a separate understanding pertaining to financial services. In this regard, it is important to note that the eventual understandings we may reach in the Uruguay Round negotiations on services could affect the requirements of the EC as they set out their directives for the 1992 "Single Market Initiative." The Community has stated that none of its directives will be inconsistent with its international obligations.

Anything we might do in the trade area will be closely coordinated with the Treasury Department, which has the lead in the Administration on all financial services issues and has the expertise to deal with the very complicated questions arising in this area of activity.

Q:

I understand that an application has been made for the launching of U.S. satellites from Soviet launch vehicles. Do you have a position on this.

A:

Any application for an export license to launch a U.S. satellite from a Soviet launch vehicle would be subject to the Arms Export Control Act and the International Traffic in Arms Regulations, which are administered by the Department of State. However, this matter was discussed when President Reagan decided in September 1988 to approve, subject to certain conditions including the successful negotiation of a trade agreement, export licenses for the launch of several U.S. satellites from Chinese launch vehicles. At that time, the Reagan Administration decided that similar export licenses should not be issued for the launch of U.S. satellites on Soviet launch vehicles. I know of no reason why that decision should be changed.

Q:

It has come to my attention that the government of Thailand decided during the fall of 1988 to negotiate a Voluntary Restraint Agreement on steel with the United States. I understand that those negotiations were started but were discontinued after two sessions.

Thailand is an important U.S. ally that has helped us politically and strategically over the last few decades. It is also a developing nation experiencing rapid industrial and economic expansion.

What are your intentions towards resuming those negotiations?

A:

Increasing imports of pipe and tube from Thailand are a serious concern. Imports have risen from 67 thousand tons in 1986 to 144 thousand tons in the first 11 months of 1988, most of which has been pipe and tube. The largest supplies of plate for making pipe and tube come from Japan, accounting for almost 60 percent of Thailand's raw material supplies. East Germany is the second largest supplier, accounting for 13 percent. More than 90 percent of Thailand's supply of raw material to produce pipe and tube comes from countries with which we have negotiated VRAs.

The United States and Thailand have held discussions on this issue to explore possible ways to resolve our concerns. While those discussions have not been successful, we remain open to the possibility of further talks.

During the Administration's review of the current program, we will be reviewing how the VRAs address the problem of diversionary trade issues. In the course of this review as well as subsequent negotiations, we will be consulting with both Congress and the industry.

QUESTIONS FROM SENATOR PACKWOOD
(ON BEHALF OF SENATOR WILSON)

Q:

There is a Section 301 case now pending that has trade policy implications far beyond the trade value involved. The case involves a dispute with Europe over canned fruit subsidies. It has been pending for almost a decade. In 1985, former President Reagan stepped in and, in a national radio address, announced that if the EEC did not correct its practices, EEC fruit coming into the U.S. market would be barred. Shortly after that, a settlement was reached. Several months ago, it was determined that the settlement is being breached. The EEC has ignored U.S. expressions of concern and documentation of noncompliance. So far, I have yet to hear any announcement from the Executive Branch that corrections must be made or retaliation will be taken.

At issue here is the credibility of the last stage of the Section 301 process -- that is, settlement enforcement. Presidential involvement to secure a settlement is good, even necessary. But there must be the necessary follow-up to ensure compliance. What assurances can you provide this Committee that Section 301 cases remain under active review once settled and that sectors like the U.S. canned fruit industry can count on swift unilateral measures being taken by the United States if evidence of noncompliance is ignored by our negotiating partners?

A:

I fully share your concern about the EC's violation of this agreement. Continued EC noncompliance with the terms of this agreement has implications, not only for the economic health of the U.S. canned fruit industry, but for our ability to resolve future trade disputes with the European Community. You can be certain that we will pursue this issue vigorously.

The Administration is coordinating closely with the U.S. industry on this issue. A great deal of effort has been devoted to seeking a resolution of this problem. U.S. officials held several rounds of consultations with EC officials last fall. I intend to raise this issue personally with Commissioner Andriessen when I meet with him.

QUESTIONS FROM SENATOR RIEGLE

Q:

Is it true that the USTR may deny human rights organizations standing to file a worker rights petition? Given that these organizations are among the most knowledgeable in our society about foreign labor conditions and that Congress intended the policy changes made by the Trade Bill to be as effective as possible, how do you view the standing question?

A:

The proposed regulations are still the subject of internal review and have not yet been published for comment. I will look carefully at the standing question, and will take care that nothing we do in the context of section 301 regulations undermines efforts of the Congress to strengthen the worker rights provisions in our trade laws. However, I do want to ensure that section 301 petitions provide an adequate basis for us to proceed, particularly with respect to demonstrating that foreign unfair trade practices burden or restrict U.S. commerce.

Q:

Recent trade statistics suggest that Japan's trade surplus may stay stuck at current levels for the foreseeable future. The European Community projects that its reforms will increase its trade surplus. Many developing countries will continue to run trade surpluses to meet their foreign debt payments.

Let's assume that the U.S. eliminates its budget deficit and brings its trade accounts into rough balance over the next few years. Where will the stimulus for world growth come from? Won't other countries have to accept deterioration in their trade accounts to offset the decline in the U.S. trade deficit? Which countries are likely to accept this? What does this mean for U.S. trade policy in general and the implementation of Super 301 in particular?

A:

I understand the concerns you've expressed, but I am relatively optimistic that, given the right policies here and abroad, the world economy and trade policy can adjust successfully to elimination of the U.S. trade and budget deficits.

I am less concerned about current forecasts about the Japanese or EC external balance several years out than about shaping the domestic and foreign economic policy adjustments required to keep the adjustment on track and the world economy growing. While economic forecasts are useful tools, those forecasts are contingent on assumptions about a host of variables, including public policy. Near-term and especially longer-term forecasts can change rapidly as forecasters adjust their assumptions.

The United States and its trading partners must do what they can to ensure that the global trade and payments correction occurs in the context of sustained world economic growth. Our aim is to correct the current imbalances over several years, not all at once. Keeping the correction on a steady, sustained course will help ease foreign (and domestic) adjustment burdens arising from the correction. It will also assure world financial markets of our determination to see the current imbalances reduced and ultimately eliminated.

Since the September 1985 Plaza Agreement, the process of international macroeconomic policy coordination has been substantially developed. The United States and its major industrial-country trading partners share a commitment to reducing global payments imbalances in the context of sustained world economic growth.

This shared commitment means that as the United States reduces its trade and budget deficits -- and the stimulus to world growth they have provided -- the major surplus countries should stimulate their economies to help offset the contractionary impact of the U.S. correction.

An example of how a smooth correction process might work in one particular area is the high-debt LDCs. This train of thought is not a prediction but rather a scenario on how markets could adjust to policies designed to sustain both the trade correction and economic growth.

There is concern over the ability of high-debt LDCs to increase exports substantially from the United States or other countries. The fear is that without stronger LDC markets as the U.S. trade deficit corrects, the correction will be based on insufficient growth in world trade and output.

If the United States boosts domestic saving relative to investment, thereby eliminating U.S. net foreign borrowing, real interest rates in the United States and abroad might fall. Lower interest rates could significantly reduce the high-debt LDCs debt service burden and boost their ability to import and to grow.

Even if the Japanese external surplus was not completely eliminated, a stronger growth potential in a number of LDCs -- particularly those with solid structural adjustment programs -- could help shift the bilateral pattern of Japanese surpluses away from the United States and toward capital-poor LDCs.

Finally, with macroeconomic policy working to reduce and eliminate the trade deficit, a key question is whether foreign markets will be sufficiently open to allow that correction to take place through U.S. export expansion (and sustained U.S. and global growth) as contrasted to significant reductions in U.S. imports (with depressing effects on world trade and output).

Continued strong U.S. export growth will be challenging for some of our trade partners. A central trade policy goal will be to convince our trade partners that avoiding new trade barriers and knocking down old ones is not just in the U.S. interest, but in their own interests as well. If anything, the need to correct the U.S. trade deficit primarily through export expansion increases the importance of the leverage provided by Super 301 in opening foreign markets.

Even when U.S. trade is in balance or surplus, the United States should be no less concerned about opening foreign markets than it is when U.S. trade is in deficit. While trade policy has little influence on aggregate trade balances, a policy of free and fair trade has a major influence on microeconomic efficiency, real income levels and material welfare no matter what the position of the trade and current account balances.

QUESTION FROM SENATOR ROCKEFELLER

Q:

The outcome of current international competition in semiconductors is directly relevant to the overall U.S. economic wellbeing, and, in particular, to the resurgence of the U.S. consumer electronics industry. The United States has undertaken a number of efforts, in research and development with the industry and in the trade agreement with Japan to help ensure that the U.S. semiconductor industry is healthy. It has set as a priority gaining full access to foreign markets. The U.S. semiconductor industry does not seek protection, but rather an open free trade environment worldwide. I would hope that the Bush Administration would place a very high priority on ensuring that the U.S. industry has access to the world's largest semiconductor market, Japan. Is that your intention?

A:

Absolutely. I am fully committed to obtaining full access to all foreign semiconductor markets. This means enforcing the U.S.-Japan Semiconductor Agreement to obtain access to the Japanese market and ensuring that barriers to U.S. exports are not erected in other nations.

This is a very high priority issue. My office is actively engaged in working with the Government of Japan and the private sectors in both countries to increase foreign participation in the Japanese semiconductor market. We are emphasizing the need to increase the use of foreign semiconductors in companies outside of the 11 largest Japanese semiconductor users (particularly in the automobile and consumer sectors) and develop long-term relationships between foreign suppliers and Japanese semiconductor users.

As you are aware, sanctions were imposed against Japan by President Reagan for failure to implement the market access provisions of the semiconductor agreement. These sanctions will remain in place until there is, in President Reagan's words, "firm and continuing evidence ... that access to the Japanese market has improved."

QUESTIONS FROM SENATOR SYMMS

Softwood lumber statement:

You are familiar with the Memorandum of Understanding that was reached in 1986 with the Canadian government about softwood lumber imports to the United States.

Since its adoption, the Canadian industry has sought the elimination of the Memorandum of Understanding. Canadian industry associations have asked their governments for unilateral amendments that would have undermined its effectiveness. Several serious breaches were remedied only through U.S. monitoring.

During the recent Canadian election, the Minister for Forests, Gerald St.Germain, announced that the Mulroney government, if returned to power, would seek to terminate the Memorandum of Understanding through negotiations. British Columbia's Minister of Forests Dave Parker agreed similarly.

Thus the U.S. forest products industry strongly suspects that early in your tenure as U.S.T.R. the Canadians will request a renegotiation of the Memorandum of Understanding, or the new Administration may be put to an early test by an open breach of the Understanding.

Question:

Please give this Committee any information you may have about the Canadian intentions and your position about the softwood lumber Memorandum of Understanding.

Follow up:

Do we have your strong commitment to enforce the Memorandum of Understanding promptly and thoroughly?

Industry Sector Advisory Committees statement:

I am sure you are familiar with the 1974 Trade Act provision that creates Industry Sector Advisory Committees -- ISACs -- to provide the U.S.T.R. with advice and technical support from 17 industry groups.

Question:

I would like your thoughts on the participation in those ISACs by the representatives of trade associations -- executives who represent the industries as a whole -- as well as representatives of individual companies in the Industry Sector?

I believe that substantial benefit accrues to your policy development from the membership of association executives on those Industry Sector Committees.

Follow up:

I am serious about this issue and wish to pursue the matter. I would be happy to discuss it with your further.

Statement on U.S.-Japan semiconductor agreement:

The semiconductor agreement between Japan and the United States has been quite controversial, since it led to the increase in microchip prices in the United States. But I believe it also was very important in preserving a strong U.S. presence in microchip manufacturing -- and assuring that the basis of our computer industry won't disappear the way our Videocassette Recorder manufacturing industry did.

One thing that I strongly admire about your predecessor, Clayton Yeutter, and our former great Secretary of Commerce Malcolm Baldridge, is that they were really tough men -- "warriors" as it were.

Some of my constituents are worried that if the Japanese get the idea you are not as tough as Clayton Yeutter or Mack Baldridge, they will attempt to run right over the U.S. markets.

Question:

How do you view the Semiconductor agreement at this time.

Follow up:

Are you prepared to impose further penalties if the Japanese violate it?

Statement on "Super 301" report:

In May of this year, your office is required to issue something called the "Super 301 Report" identifying those trading partners who are most out of line with fair and balanced trade with the United States.

I am concerned about the potential negative impact of the Super 301 report.

Question:

Doesn't it make sense to let key countries know, quietly and immediately, exactly what they must do to avoid being added to the Super 301 list?

This would allow them to work with you this Spring on plans that would attempt to address our major concerns.

Follow up:

If we simply wait until May 30 and publicly hit them with the stigma of Super 301, won't that polarize and politicize the debate to the point that we make it more difficult for these countries to make the trade policy changes we desire to see?

Pro-Taiwan statement:

What is your view on the relationship between trade and national security issues? Is it plausible tht we might be jeopardizing our strategic geopolitical interests by engaging in confrontational trade battles with important allies in the Far East over such products as turkey parts or kiwi fruit?

(facts and data about how much Taiwan has conceded and moved to increase openness with U.S. is attached. Use the facts for follow up.)

Trade With the United States

The ROC is the fifth largest trading partner of the United States. In 1988, the ROC imported from the United States a total of $13.002 billion, or an increase of 74 percent over the 1987 figure; exports to the U.S. amounted to 23.427 billion, or a 1 percent decrease compared with the 1987 figure. The ROC recorded a trade surplus of $10.425 billion with the U.S., a reduction of 16.5 percent compared with that of 1987.

In 1988, the ROC's imports from the U.S. constituted 26.19 percent of total imports, while 38.7 percent of the ROC's total exports went to the U.S. market, a decline from 47.8 percent in 1986, and 44.15 percent in 1987.

Foreign Exchange

The ROC's foreign exchange reserves amounted to $74 billion at the conclusion of 1988. The New Taiwan dollar (NT$) has appreciated 46.58 percent against the U.S. dollar since the Plaza Accord meeting in September 1985. The exchange rate adjusted from NT$40.53 = US$1 on September 21, 1985, to NT$27.65 = US$1 on January 23, 1989.

Tariff Reduction

The ROC cut tariffs on 3803 items of imports in 1988, and has stated its determination to shrink by 1992 its average nominal import tariff rate to 7% and its average effective import tariff rate to 3.5%.

RESPONSES TO QUESTIONS FROM SENATOR SYMMS

Q:

Please give this Committee any information you may have about the Canadian intentions and your position about the softwood lumber Memorandum of Understanding.

A:

The Administration is closely monitoring the agreement. We will fully investigate any problem, and if necessary, we will enter into consultations with the Government of Canada, as provided by the MOU, to resolve it. The U.S.-Canada Free Trade Agreement (FTA) specifically continues in force the MOU and allows measures necessary to enforce it.

I am firmly commited to fair trade and to upholding the United States' responsibilities in all its trade agreements. I am aware of the importance of this agreement to our industry and will take whatever actions are necessary and appropriate to ensure compliance with the agreement.

Q:

I would like your thoughts on the participation in those ISACs by the representatives of trade associations -- executives who represent the industries as a whole -- as well as representatives of individual companies in the Industry Sector?

I believe that substantial benefit accrues to your policy development from the membership of association executives on those Industry Sector Committees.

Follow-up:

I am serious about this issue and wish to pursue the matter. I would be happy to discuss it with you further.

A:

The Industry Sector Advisory Committees (ISACs) are private sector advisory committees managed cooperatively by the Department of Commerce and the Office of the U.S. Trade Representative. Each committee represents an individual industry sector and provides specific, often highly technical information concerning the effect that trade policy decisions may have on its sector.

In selecting members for the ISACs, every effort is made to maintain balanced representation on each committee. In appointing candidates, a balance should be sought among sector and product lines, between large and small entities, and among geographic areas and demographic groups. Experience and expertise in international trade are, however, the most important criteria.

I agree with your assessment that our trade policy development can benefit substantially from the input of trade association representatives. Our goal with committee memberships is to seek the most knowledgeable individuals who will be representative of the actual views of a specific industry.

There is no hard and fast rule against trade associations' executives (or corporate Washington representatives for that matter) serving on ISACs, which is illustrated by the fact that there are a number of "association" ISAC members. Examples where such representation is particularly appropriate are: where a trade association represents an industry either so small that they simply cannot afford to send their own representative to Washington, D.C. for meetings, or so diverse that it is more advantageous to be represented by an association representative who is familiar with all aspects of an industry rather than to be represented by individuals from the many-faceted sector.

In the course of developing U.S. trade policy, it is critical that the U.S. government's policy-makers and trade negotiators have the full advantage of what people in the business world are really thinking and experiencing with their business colleagues abroad. In general, those industry representatives with "hands on" experience and expertise gained by the simple virtue of being closely integrated within a company's operations on a day-to-day basis offer the more substantive advice and counsel.

We will continue to seek a healthy balance of association representation and industry representation on the ISACs by reviewing each and every nominee to the program on a case-by-case basis to assure that we have the best possible representatives as members of the advisory committees.

Q:

The semiconductor agreement between Japan and the United States has been quite controversial, since it led to the increase in microchip prices in the United States. But I believe it also was very important in preserving a strong U.S. presence in microchip manufacturing -- and assuring that the basis of our computer industry won't disappear the way our Videocassette Recorder manufacturing industry did.

One thing that I strongly admire about your predecessor, Clayton Yeutter, and our former great Secretary of Commerce Malcolm Baldrige, is that they were really tough men -- "warriors" as it were.

Some of my constituents are worried that if the Japanese get the idea you are not as tough as Clayton Yeutter or Mack Baldrige, they will attempt to run right over the U.S. markets.

How do you view the Semiconductor agreement at this time?

A:

I share your admiration for the work Clayton Yeutter did as USTR and the late Malcolm Baldrige did as Secretary of Commerce, and I intend to be just as tough as they were in prying open foreign markets and countering unfair trade practices.

I strongly support the objectives of the U.S.-Japan Semiconductor Arrangement -- achieving full access to the Japanese semiconductor market and preventing Japanese semiconductor dumping.

Because Japan has failed to implement the market access provisions of the agreement, it has been necessary to take hard-nosed steps to enforce the agreement. The agreement was essential and must be enforced because Japan is the largest semiconductor market in the world and U.S. semiconductor suppliers must have access to that market if they are to remain competitive internationally.

FOLLOW-UP QUESTION:

Are you prepared to impose further penalties if the Japanese violate [the semiconductor agreement]?

A:

If Japan ceases to implement other provisions of the semiconductor agreement, or does not come into compliance with the market access provisions, I will consider all available measures and utilize those most likely to achieve compliance with the agreement.

Q:

Doesn't it make sense to let key countries know, quietly and immediately, exactly what they must do to avoid being added to the Super 301 list?

A:

Yes, I believe it does. We will try to use the Super 301 process in a way that provides additional leverage while we are determining what our priorities should be in 1989 and 1990. I don't see Section 301 as an end itself; rather it is part of our overall strategy for keeping the pressure on our trading partners to liberalize their markets.

Q:

What is your view on the relationship between trade and national security issues? Is it plausible that we might be jeopardizing our strategic geopolitical interests by engaging in confrontational trade battles with important allies in the Far East over such products as turkey parts or kiwi fruit?

A:

In formulating an appropriate strategy to address any trade issue, we must also consider other relevant factors, including our geopolitical interests. I believe, however, that the strong sentiment of the Finance Committee, in drafting the Omnibus Trade Act, was that U.S. trade interests should not be totally subservient to national security considerations. The changes to our trade laws enacted in the legislation will ensure -- in fact, require -- that this not occur.

Much has been said about the position taken by the Administration in response to Taiwan's breach of our trade agreement rights in the case of turkey parts. We reacted strongly for three reasons. First, Taiwan's decision to cease issuing licenses for imports of turkey parts nullified a tariff concession which we negotiated with Taiwan in 1978. Second, the cessation of imports had a real impact -- albeit modest in terms of trade volume -- on a U.S. industry. Third, Taiwan had indicated plans to cease issuing licenses for imports of U.S. fruit, a move which would have had a far greater impact on U.S. exports. In these circumstances, a vigorous response was needed, and the position taken by the Administration, in my view, was entirely appropriate. I would also add that we will respond vigorously in the event similar actions nullifying U.S. trade agreement rights are taken by the Taiwan authorities in the future.

STATEMENT OF SENATOR DANIEL PATRICK MOYNIHAN

CONFIRMATION HEARING OF CARLA HILLS

SENATE FINANCE COMMITTEE, JANUARY 27, 1989

Mr. Chairman, I am delighted to add my welcome to Carla Hills as she appears before the Finance Committee today. I previously had the pleasure of serving in the Cabinet of President Ford with Mrs. Hills, and I am sure she will make an excellent United States Trade Representative. I strongly support her nomination, and I intend to vote in favor of reporting it from the Committee and for her confirmation on the Senate floor.

I would like to use my statement this morning to impress upon Mrs. Hills the profound importance of and opportunity provided by the position of United States Trade Representative. The Omnibus Trade and Competitiveness Act of 1988, which was managed so brilliantly by our distinguished Chairman, has intentionally elevated the importance of the U.S. Trade Representative in our government.

Although I remain a believer in the need for a Department of Trade, I also believe the 1988 Trade Act provides the tools necessary for the USTR to be successful.

As some may have noticed, I am fond of a quote from the French theologian Georges Bernanos: "The worst, the most corrupting lies, are problems poorly stated." And I am afraid to say that much of the debate surrounding our trade problems in the 1980s proved him right.

I remain convinced that the root of our trade imbalance in the 1980s was macroeconomic mismanagement of the highest order. The fault does not lie at the door of the USTR.

Indeed, some notable accomplishments have been made: the free trade agreements with Canada and Israel, the vigorous use of Section 301 cases to open foreign markets, and new attention on intellectual property and services. Hopefully, the Uruguay Round will also bear fruit.

It is not the absence of creativity and vigilance amongst our trade negotiators that has yielded the trade deficits. Rather, it is the astounding budget deficits, an overvalued currency and depressed rates of savings and investment that largely underlie our declining trade fortunes in the 1980s. Certainly, other factors have also played a significant role: unfair trade barriers, the Latin American debt problem, inadequate federal funding of civilian research and development efforts and shortcomings of American management.

However, the rapidity of our trade collapse and our nagging inability to reverse our deficit, reflect, more than anything else, poor macroeconomic management. Indeed, poor policies by the previous administration. If it is so, then better policies can reverse our fortunes.

If it is not so, if our twin deficits were not caused by the failure of the 1981 tax cuts and the profligate spending of the 1980s, we really have entered a period of decline. Just as Professor Paul Kennedy has written, whether or not he has correctly analyzed the causes.

My comments are by way of entreating Mrs. Hills to remain aware that her success -- as it is measured by reversing our trade deficit -- depends as much on her ability to influence macroeconomic policy as it does on breaking down the trade barriers she discovers. And this issue is just too

fundamental to be left to others alone in the administration. If correct macreconomic policies are not followed, there is no way that the USTR will escape the consequences.

In this regard, the 1988 Trade Act gives the USTR a seat at the table. And I trust that Mrs. Hills will make full use of it.

Consider the Annual Trade Projection Report to be submitted to the Finance and Ways and Means Committees each March 1. As Mrs. Hills may know, the administration was not enthusiastic about such a report, and it was only the Chairman's insistence that kept this report in the conference agreement.

I, for one, as the author of this provision, believe it will become a very important document. It requires the USTR and the Secretary of the Treasury, in consultation with the Chairman of the Federal Reserve, to jointly submit a report on the trade, debt, exchange rate and fiscal position of the United States and its major trade partners, and to project for the year of submission and the succeeding year what these accounts will be. It also requires them to give us their recommendations on how to improve the outlook.

In short, it now does for our trade account what the CBO and OMB do for our fiscal account and the Federal Reserve does for monetary policy.

I firmly believe that if the USTR and the Secretary of the Treasury would have been compelled, for example, to file a report in March 1983 that projected our current account deficit would exceed $100 billion in 1984, we might have taken steps more quickly to do something about it. Recall

that our current account deficit for 1982 was only $8 billion, and it was in surplus in 1981. As it was, it took the administration until September 1985 to drive the dollar down.

Or consider that in March 1983, the United States net investment position was still positive by $90 billion. By the end of 1984 this fell to almost zero, and we have since become the world's largest debtor nation.

Certainly, the science of projecting such accounts is still developing. But, it is also clear that the abilities of OMB and CBO are improving, and we could not now contemplate a budget process in which we did not have their projections as a guide. We need to do the same for our trade accounts and our international investment position.

In short, we need to assure that the administration thinks about the factors that cause our trade deficit, and undertakes the proper responses. We must, to paraphrase Bernanos "correctly state the problems." I hope this report will help us to do so. And I hope at least once a year Mrs. Hills will reflect on these issues with us and give us her best counsel on how to address them.

Thank you, Mr. Chairman.

Opening Statement
Senator John D. Rockefeller
Confirmation Hearing--Carla Hills
January 27, 1989

Mrs. Hills, I would like to congratulate you on your nomination. Unfortunately, you will not have the luxury to study and reflect on trade policy issues. Rather you will be thrust immediately into the middle of some pretty tough negotiations. You will find that this Committee is ready to work closely with you and give you enormous support. We ask, however, in exchange, that you and your staff at USTR consult frequently and honestly with us on all issues.

I fully recognize that our trade deficit is, principally, created by problems that we ourselves in this country need to solve--the budget deficit, our approach to exporting, the ability of our industry to produce goods and services at the cutting edge of technology, improving our education system, and so on. However, trade issues such as closed markets overseas, targetting, other countries' unfair trade practices, dumping, subsidies, lack of intellectual property protection, antiquated distribution systems, etc., are also very important. The fact that we stress this latter set

of issues with you is in no way an indication that we are ignoring the former set. Rather, you are our trade negotiator, and trade issues will form our dialogue with you.

Mrs. Hills, my hope is that you will be a tough and strong advocate of American trade policy. The American market remains the most open in the world, and many other countries have benefitted from that--much to our disadvantage. I am happy when other countries experience solid economic growth--but not when it comes at our expense. That era is over.

The Congress provided USTR and the Administration with many new tools in the Trade Bill, and we expect you to use them. If retaliation is required because another country refuses to open its market, then we expect you to retaliate. Negotiating on trade is not a game of diplomatic niceties. It is a game of hardball, involving dollars and cents, jobs, peoples' livelihoods and standard of living. If we cannot convince our trading partners that there is credible retaliatory action at the end of an unsuccessful negotiation, then nothing will happen. For the most part, we do not have such credibility at the present time. I

strongly urge you to demonstrate to our trading partners that we are not a paper tiger.

Our foreign policy still puts its major focus on political and security relationships with trade relationships given very short shrift. It will take a forceful advocate at USTR to raise the priority given to trade issues, and I hope you will be this advocate.

Canada Free Trade Agreement

Coal is of great importance to me and to my state. The Free Trade Agreement with Canada provides for the unrestricted flow of electricity between the United States and Canada. The American coal industry is worried that subsidized Canadian energy may supplant coal—fired power plants in this country. Therefore, the Statement of Administrative Action that accompanies the FTA includes a comprehensive study, to be completed within two years, on subsidies in both countries to electric utilities. This must be a joint study, and the Canadians will have to agree to participate. When will the Administration approach the Canadian government about initiating this study?

Japan and High Technology Trade

The imbalance in our high tech trade with Japan has grown to enormous proportions, and now accounts for approximately $25 billion of our total bilateral trade deficit with that country. What is the Administration's policy to promote U.S. competitiveness and to bring this imbalance down? What is being done to get Japan to import more manufactured goods from the United States, especially high tech goods?

Give Priority to Trade Issues

The Reagan Administration never gave trade issues the priority I strongly believe they deserve. Although our bilateral and multilateral political and security relationships are important to the United States, the same can be said about our trade and economic relationships. Yet, the Reagan Administration, I would contend, right to the very end, gave the latter short shrift. USTR and the Department of Commerce, of course, do focus on those trade and economic issues. But they were frequently overridden by the State Department, Defense, Treasury, and other agencies. How do you propose to give our bilateral relationships with other

countries a better balance--one that reflects the importance of trade interests to the United States?

Coal

In 1983, President Reagan and Japanese Prime Minister Nakasone signed a 'Joint Policy Statement on Energy Cooperation'. When President Reagan met Prime Minister Takeshita in January of last year, they reaffirmed this statement. The 1983 agreement said, and I quote,

> Japan expects that imports of competitively priced U.S. metalurgical coal will not continue to decline, and will encourage its steel industry to increase U.S. coal imports when conditions in the industry permit.

Despite this commitment, Japan's coal imports from the United States dropped from 16.2 million tons in 1983, the year of the agreement, to a low of slightly over 10 million tons last year. Note that even the 1983 imports of 16.2 million tons were significantly below the 1981 statistic of 26 million tons.

I have taken every opportunity to encourage Japanese government and business leaders to implement this commitment fully. In the Japanese fiscal year ending March 30, they will probably import between 12 and 13 million tons of coal from the United States. This increase is due to strikes in Australia, transportation problems in China, and increased demand for metalurgical steel by Japan's booming steel industry. The United States has proven to be a reliable supplier of coal in Japan's time of need. Both countries can be best served by long—term arrangements in coal trade, and I hope the Japanese will finally begin to move in this direction.

I have received excellent assistance and cooperation from federal agencies in the past in my efforts to increase Japan's imports of American coal. I hope that USTR will help in this regard whenever it can.

COMMUNICATIONS

Statement by Nicholas R. Doman,
Attorney for Awardholders, against
the German Democratic Republic

Hearing scheduled for
January 27, 1989, on the
nomination of Carla Hills
as U.S. Trade Representative

January 19, 1989

Hon. Lloyd Bentsen
Chairman, Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Senator Bentsen:

On behalf of a number of awardholders from the Foreign Claims Settlement Commission of the United States, I respectfully submit this statement for the Committee's consideration in connection with the hearing to review the nomination of Carla Hills to be United States Trade Representative.

The 94th Congress authorized the Foreign Claims Settlement Commission on October 18, 1976, to adjudicate outstanding claims of U.S. nationals against the German Democratic Republic, hereafter the "GDR", (Public Law No. 94-542, 22 U.S.C. sections 1644-1644m). The adjudication of these GDR claims was completed by May 16, 1981, and 1,999 awards were issued in the amount of $77,880,352.69, plus 6% simple interest for more than 2,000 U.S. nationals, starting in 1945 or shortly thereafter, when the nationalization occurred. No one would dispute that the value of awards amounting to about $78 million

based on values in the late 1940s is not worth more than $10 million in 1989. No payments were made by the U.S. Treasury in satisfaction of these claims because of absence of funds.

Negotiations for a claims settlement agreement between the United States and the GDR have been conducted on a sporadic basic for more than seven years. According to statements by the office of the Legal Adviser of the Department of State, one negotiating session took place in the spring and the other in the fall of each year for the past seven years. Limited progress has been made in the negotiations but a stumbling block arose when the GDR negotiators insisted on tying any settlement of United States claims to trade benefits for the GDR. The result of this insistence by the GDR was that, in addition to the Department of State, the United States Trade Representative became a vital and necessary part of negotiations in any settlement of the claims of American victims of the GDR nationalizations. Mr. Clayton Yeutter, the Trade Representative in 1988, in a letter dated July 29, 1988 to Mrs. Eugene L. Garbaty, whose claim and award I have the honor to represent, expressed his full sympathy with the predicament of Mrs. Garbaty and other Americans to whom the GDR has owed monies for more than 40 years. A copy of his letter is annexed to this statement.

In the past, Mr. Yeutter voiced the position of the Administration that it is opposed to the general concept of concluding a trade and business facilitation agreement concurrently with an agreement for the settlement of United States claims against the GDR. It appears that the settlement of the relatively small adjudicated claims of United States nationals against the GDR has been stalled because of the reluctance of the Trade Representative to even discuss means of

improving the bilateral trade relationship between the United States and the GDR.

While it is understandable that the Trade Representative wants concessions for American trade interests as well, contingent trade benefits to unidentifiable American exporters should not stand in the way of satisfying identified awards granted by the Foreign Claims Settlement Commission to United States nationals.

It has been widely reported that the negotiators on behalf of the United States are not only willing to release the GDR from the payment of adjudicated interest for more than 40 years amounting to more than $240,000,000 since the date of the nationalization or other taking of American property by the GDR, but are even willing to consent to the payment of less than 50 percent of the principal amount of the awards. For example, an award of $100,000 based on values in the 1945-1949 period, has a present value of less than $15,000. Interest on $100,000 for 40 years comes to $240,000. Instead of receiving $340,000, an American national with an award of $100,000 might receive less than $7,500.

It is obvious that the United States Trade Representative will play a key role in the negotiations if the GDR continues to insist that trade concessions to it be considered at the same time as the settlement of claims is considered. The history of past negotiations with socialist countries such as Yugoslavia, Rumania, Poland, Hungary and

Czechoslovakia, are precedents for tying trade negotiations to claims settlement. In all these instances Congress approved such settlements (e.g. P.L. 97-127, which approved the claims settlement with Czechoslovakia, resulting in the payment of about 90% of the principal amounts of the nationalization awards).

It stands to reason that awardholders from the United States Foreign Claims Settlement Commission want to know what the position of Honorable Carla Hills will be with respect to claims settlements and what position she will have in connection with the negotiation of a trade agreement with the GDR if she is confirmed by the Senate. More than 2,000 awardholders are anxiously awaiting the expression of the views of the nominee for the important office of Trade Representative as to whether she will be willing to adopt a flexible attitude and participate in negotiations at this time in the face of the stubborn insistence of the GDR to tie the long overdue settlement of claims to the improvement of the bilateral trade relationship. I also believe that the GDR will settle the claims of United States nationals before the conclusion of any trade agreement with the United States if it receives reasonable assurance from the Trade Representative representing the U.S. Government that a trade agreement will be promptly considered after the settlement of the claims.

Respectfully submitted,

Nicholas R. Doman
The Law Firm of Nicholas R. Doman
420 Lexington Avenue
New York, N.Y. 10170
Telephone: (212)661-8888

Senate Finance Committee
USTR Confirmation Hearing
January 27, 1988

Comments of Glenn M. Miller, Esq.

Thank you for this opportunity to support the confirmation of Carla A. Hills, Esquire as United States Trade Representative. I am especially appreciative of this opportunity in that both the trade arena and Mrs. Hills are well known to me.

With regard to the field of trade, I have been active in the area of trade law for many years as a practicing attorney with a number of leading U.S. corporations as clients. At this time I am Senior Counsel for PPG Industries and serve as the Chairman of its Trade Policy Committee. I am also a DOC/USTR Industry Sector Advisory Committee member.

With regard to the President's nominee, I have known Mrs. Hills professionally for a number of years. I know her to be a business leader, a student of history, a brilliant lawyer and a consummate negotiator.

It is critical at this point in our nation's history to have a Trade Ambassador who will challenge unfair trade practices and work aggressively to expand trade and investment opportunities for U.S. industry, and who has the full complement of skills required to succeed. In this sense, Mrs. Hills is perfectly suited to be the next United States Trade Representative. In my judgment, no better choice could be made.

Respectfully submitted,

Glenn M. Miller

STATEMENT OF

ALEXANDER B. TROWBRIDGE

President
National Association of Manufacturers

IN SUPPORT OF THE NOMINATION OF
CARLA ANDERSON HILLS FOR U.S. TRADE REPRESENTATIVE

Before the

Committee on Finance
United States Senate

January 27, 1989

Mr. Chairman, Members of the Committee, my name is Alexander Trowbridge, and I am the President of the National Association of Manufacturers. I am very grateful for the opportunity to testify today.

I have known Carla Hills for a number of years and I have been consistently impressed by her competence, her dedication, her integrity and her almost legendary energy -- these are the traits that qualify her to be U.S. Trade Representative. So too does her experience. In short, Mr. Chairman, the NAM believes Mrs. Hills would be an excellent U.S. Trade Representative and we hope that the Senate will act swiftly to confirm her.

Before discussing further Mrs. Hills' personal strengths, I should like to explain to the Committee how very important the position at issue is to America's manufacturers. The U. S. Trade Representative is the only Cabinet officer explicitly charged with developing and implementing U.S. trade policy. American competitiveness is a cloth with a thousand threads, and the adequacy of the whole cannot be ensured by the strength of any one strand or cluster. Nevertheless, our governments' policies in this area are a critical component of competitiveness.

When those policies are effective, foreign markets are open to U.S. goods and both the U.S. and other markets are sheltered from the injurious consequences of unfair trade. Those conditions, in turn, can and, we believe, will in time produce the investment that will be necessary here in the United States for us to make America once again the world's leading exporter and, more importantly, to restore balance to the external accounts of the United States.

This, of course, is one of the stated goals of the recently enacted Omnibus Trade and Competitiveness Act. The NAM commends this Committee and others in Congress for the genuinely heroic task of producing that legislation, legislation which we strongly endorsed. It is worth noting that the "findings" section of the Trade Act contains the statement that "it is essential, and should be the highest priority of the United States Government, to pursue a broad array of domestic and international policies ... to ensure future stability in external trade of the United States." (emphasis added)

This is a major undertaking against the background of more than a decade of deficits. As the Members of the Committee know, the 1987 deficit in merchandise trade was over $170 billion. The 1988 figure will be smaller, but it will still be enormous, about $140 billion.

The size of recent U.S. trade deficits is not the only feature that should be highlighted. I would also like to point out to the Committee that even the crudest analysis of U.S. trade data demonstrates that the core of the U.S. trade problem, and the key to its solution, both lie in manufactured goods. In the first eleven months of this year, manufactured goods accounted for 67 percent of U.S. exports and 82 percent of U.S. imports. Moreover, the deficit in our trade in manufactured goods exceeded the overall trade deficit by $8 billion. It is only by recapturing markets for manufactured goods, both here and abroad, that the United States can

move its trade account into surplus -- which is the first step towards long-term balance.

I would not wish to rank the importance of the various changes in U.S. trade law that were brought about by the 1988 Trade Act. One can say, however, that few will be more important to the next U.S. Trade Representative than those affecting Section 301 of the 1974 Trade Act. This very crucial statute is now more important than ever, and it was always important. The role of the U.S. Trade Representative in administering this statute has been dramatically enhanced. Prior to the enactment of the 1988 Trade Act, the key decisions in Section 301 cases had to be made by the President. This is no longer true. Henceforth, the U.S. Trade Representative will be able to determine whether a particular foreign practice should be regarded as unfair under this law and, even more significant, he or she will be empowered to impose sanctions on foreign trade where sanctions are called for.

The NAM has long favored these changes. We believe they will make U.S. trade policy more effective and the U.S. Trade Representative a more credible negotiator.

Other changes in Section 301 also have the effect of magnifying the power and importance of the U.S. Trade Representative. Chief among these are the Super 301 provisions. These ensure that the Administration will address those unfair practices abroad that seriously hamper U.S. exports and U.S. competitiveness. It would be hard to find another law, however, which demanded as much of its administrators as the Super 301 provisions demand. These new sections of U.S. law can only truly serve U.S. interests if they are administered by a tough and imaginative negotiator. We believe that the U.S. Trade Representative-designate, Carla Hills, is such a person.

COMMENTS ON HUD AND USTR

In a sense, Mrs. Hills is new to international trade. She is not new to government or to high office. Indeed, this will be her second Cabinet-level appointment. From March of 1975 until February of 1977, she served as Secretary of Housing and Urban Development. Among other things, she demonstrated in that position that she is a first-rate administrator. One retired HUD official we know said she was the best he had ever worked for. He praised her especially for her ability to set clear priorities and to convey those priorities to all concerned.

I would like to talk briefly about Mrs. Hills HUD experience because it seems to me that that job, which she held under former President Ford, is not as different from the job that President Bush has nominated her for as it first might appear. Consider for example this comment of the mid-1970s by former Senator Proxmire:

> Never was there a time when housing was more needed. We need it for jobs. We need it for economic stimulus. We need housing for its own benefits.
>
> As quoted in Dun's Review, April 1976

The same observation could be made today about trade, especially exports.

Another striking similarity in the two jobs is the fact that Mrs. Hills took over as HUD Secretary shortly after the passage of landmark legislation in that field, namely, the Housing and Community Development Act of 1974. Her job was to implement that act, including swift publication of the necessary regulations. She is being considered today for U.S. Trade Representative in the wake of not one but two landmark trade bills. The first, already referred to, is The Omnibus Trade and Competitiveness Act of 1988. The second is The United States-Canada Free-Trade Implementation Act of 1988.

In both jobs, the challenge of the Cabinet officer is to use

the powers of government to maximize benefits to society that will derive largely from private efforts. That is a rare ability, and we believe Mrs. Hills has demonstrated it.

NO CONFLICT OF INTEREST

It is true that Mrs. Hills, as a lawyer and as the wife of a lawyer, has had connections with certain foreign interests. It would be surprising if she had not. Almost certainly that experience too will help her carry out her new responsibilities. We know of nothing, however, which would constitute a conflict of interest. Two things about this aspect of Mrs. Hills career strike us as particularly relevant. The first is that she has no continuing relationship with any foreign party, or indeed with anyone where the relationship would inhibit her ability to carry out her duties as U.S. Trade Representative.

The second point is more general. Mrs. Hills has an enviable reputation as an extremely good lawyer. We believe that reputation is well deserved. We trust it. We trust it because we know that a good lawyer knows who his or her client is. We have no doubt that Mrs. Hills understands in her bones that, if she becomes U.S. Trade Representative, her client will be the United States of America.

In closing, Mr. Chairman, I should like to call to the Committee's attention something Mrs. Hills said in an address to the Press Club in 1975. After sketching a fairly dismal scene for her audience, she said:

> Who would even want to be at HUD at a time like this? ... Well, I would. Yes, we have problems, lots of them. And some of them are agonizing. But we face a challenge that is worthy of all our energy, creativity, and horse sense.
>
> As quoted in Fortune, December 1975

Well, Mr. Chairman, at this juncture, the National Association of Manufacturers would like Mrs. Hills to be at USTR.

Thank you. I would be happy to respond to questions.

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